HARBORSIDE INC.

(FORMERLY LINEAGE GROW COMPANY LTD.)

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(EXPRESSED IN UNITED STATES DOLLARS)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the unaudited condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Harborside Inc. ("Harborside", or the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

HARBORSIDE INC. **(formerly Lineage Grow Company Ltd.)**
Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in United States Dollars)

	Notes	**As at September 30, 2019** $	As at December 31, 2018 $
Assets			
Current Assets			
Cash		**16,626,218**	17,000,008
Accounts receivable	5	**1,484,147**	643,303
Inventories	6	**4,160,980**	3,692,851
Biological assets	7	**2,712,445**	3,682,832
Prepaid expenses	8	**1,864,383**	1,657,756
Notes receivable	21	**-**	1,538,469
Total Current Assets		**26,848,173**	28,215,219
Non-Current Assets			
Investments and advances	9	**4,509,514**	1,891,992
Property, plant and equipment	10	**13,199,642**	10,401,569
Right-of-use assets	11	**414,097**	-
Deposits		**57,853**	290,253
Intangible assets		**415,905**	-
Goodwill	4	**7,579,421**	-
Total Assets		**53,024,605**	40,799,033
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	12	**13,571,650**	12,686,002
Notes payable and accrued interest - current	13	**-**	1,591,377
Derivative liabilities - current	14	**107,662**	-
Lease payable - current	24	**44,306**	-
Income tax payable		**2,089,038**	49,311
Deferred gain - current	21	**38,553**	38,553
Accrued dividend		**-**	973,008
Total Current Liabilities		**15,851,209**	15,338,251
Non-Current Liabilities			
Convertible notes payable	14	**823,071**	17,679,766
Derivative liabilities	4,15	**65,888**	22,426,008
Warrant derivative liability	15	**436,850**	5,700,737
Provisions	16	**15,370,000**	-
Lease payable	24	**385,145**	-
Deferred tax liability		**98,279**	-
Deferred gain	21	**224,895**	253,810
Deferred rent	24	**197,600**	129,200
Total Liabilities		**33,452,937**	61,527,772
Shareholders' Equity			
Share capital	18	**71,125,662**	14,197,070
Contributed surplus	19	**8,628,456**	4,471,060
Reserve for warrants	20	**2,245,264**	988,772
Accumulated other comprehensive loss		**(40,879)**	-
Accumulated deficit		**(62,386,835)**	(40,385,641)
Total Shareholders' Equity		**19,571,668**	(20,728,739)
Total Liabilities and Shareholders' Equity		**53,024,605**	40,799,033

Nature of operations (Note 1)
Commitments and contingencies (Note 24)
Subsequent events (Note 25)

Approved on behalf of the Board of Directors:

"Peter Bilodeau" (signed)
Director

"Matthew Hawkins" (signed)
Director

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

HARBORSIDE INC. (formerly Lineage Grow Company Ltd.)
Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three and nine months ended September 30, 2019 and 2018
(Expressed in United States Dollars)

	Notes	**Three months ended September 30, 2019**	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
		$	$	**$**	$
Retail revenue		**10,399,708**	9,161,023	**30,125,846**	28,672,759
Wholesale revenue		**3,674,774**	2,339,734	**8,647,055**	3,178,408
Total Revenue		**14,074,482**	11,500,757	**38,772,901**	31,851,167
Cost of goods sold - retail	6	**(6,436,065)**	(6,309,900)	**(18,635,317)**	(21,150,027)
Cost of goods sold - wholesale	6	**(4,451,269)**	(2,387,686)	**(8,020,009)**	(6,064,487)
		(10,887,334)	(8,697,586)	**(26,655,326)**	(27,214,514)
Gross Profit before Biological Assets Adjustments		**3,187,148**	2,803,171	**12,117,575**	4,636,653
Change in fair value of biological assets	7	**(1,275,150)**	(579,889)	**(1,130,387)**	1,467,796
Gross Profit		**1,911,998**	2,223,282	**10,987,188**	6,104,449
Expenses					
General and administrative		**5,415,700**	5,556,566	**15,136,397**	12,655,475
Professional fees	20	**590,082**	1,309,397	**5,615,218**	2,135,061
Stock-based compensation	18	**2,046,214**	547,547	**4,628,612**	3,197,464
Share-based payments	17	**-**	-	**2,252,479**	-
Allowance for expected credit losses	9	**338,332**	-	**338,332**	-
Impairment loss		**-**	(949,395)	**-**	-
Depreciation and amortization	10,11	**284,120**	282,578	**851,073**	660,299
		(8,674,448)	(6,746,693)	**(28,822,111)**	(18,648,299)
Loss before the Undernoted		**(6,762,450)**	(4,523,411)	**(17,834,923)**	(12,543,850)
Interest expense	14	**(56,254)**	(552,263)	**(4,833,488)**	(1,454,978)
Fair value change in derivative liabilities	14,15	**9,020,685**	-	**17,236,959**	-
Write-down of investments	10	**(1,238,128)**	-	**(1,238,128)**	-
Gain on sale of investments		**-**	203,049	**-**	203,049
Gain on sale of equipment		**9,638**	9,638	**28,915**	44,425
Provision for tax penalties	16	**-**	-	**(15,370,000)**	-
Other revenue		**(108,333)**	(289,309)	**(73,799)**	(261,693)
Foreign exchange (loss) gain		**(66,280)**	-	**1,151,773**	-
Total Other Income (Expenses)		**7,561,328**	(628,885)	**(3,097,768)**	(1,469,197)
Net Income (Loss) before Income Taxes		**798,878**	(5,152,296)	**(20,932,691)**	(14,013,047)
Income tax (expense) recovery		**(2,000,000)**	-	**(2,000,000)**	63,252
Net Loss		**(1,201,122)**	(5,152,296)	**(22,932,691)**	(13,949,795)
Other Comprehensive Income (Loss)					
Exchange loss on translation of foreign operations		**(57,168)**	-	**(40,879)**	-
Total Comprehensive (Loss)		**(1,258,290)**	(5,152,296)	**(22,973,570)**	(13,949,795)
Weighted Average Number of Shares Outstanding					
Basic and diluted		**39,043,574**	21,216,815	**32,156,682**	12,999,789
Net Loss per Share					
Basic and diluted		**(0.031)**	(0.243)	**(0.713)**	(1.073)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

HARBORSIDE INC. (formerly Lineage Grow Company Ltd.)
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2019 and 2018
(Expressed in United States Dollars)

	Notes	**Three months ended September 30, 2019**	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
		$	$	**$**	$
Operating Activities					
Net loss for the period		**(1,201,122)**	(5,089,044)	**(22,932,691)**	(13,949,795)
Adjustments to reconcile net income (loss) to cash flow:					
Stock-based compensation	18	**1,577,092**	1,016,669	**4,159,490**	3,197,464
Share-based payment	17	**-**	-	**2,252,479**	-
Depreciation and amortization	10	**284,120**	282,578	**851,073**	660,299
Right-of-use assets amortization	11	**16,896**	-	**20,952**	-
Change in fair value of biological assets	7	**1,115,150**	579,889	**970,387**	(1,467,796)
Change in fair value in derivative liabilities	14,15	**(9,020,685)**	-	**(17,236,959)**	-
Allowance for expected credit losses	9	**338,332**	-	**338,332**	-
Impairment on investments	9	**1,238,128**	-	**1,238,128**	-
Income tax provision		**2,000,000**	-	**2,000,000**	-
Provisions for tax penalties	16	**-**	-	**15,370,000**	-
Gain on sale of equipment		**(9,638)**	34,787	**(28,915)**	-
Income tax recovery		**-**	-	**-**	-
Deferred rent	24	**22,800**	22,800	**68,400**	68,400
Accretion on convertible debentures	14	**83,215**	297,009	**2,880,011**	297,009
		(3,555,712)	(2,855,312)	**(10,049,313)**	(11,194,419)
Changes in non-cash working capital:					
Accounts receivable	5	**351,915**	(63,682)	**(779,601)**	(471,299)
Inventories	6	**1,606,856**	276,972	**(384,028)**	5,292,248
Prepaid expenses	7	**206,680**	(459,965)	**(187,083)**	(34,536)
Other current assets		**114,983**	-	**-**	-
Deposits		**-**	72,807	**(767,600)**	49,235
Accounts payable and accrued liabilities	12	**(56,871)**	281,032	**185,890**	(581,242)
Notes payable and accrued interest - current	13	**616**	-	**1,042,049**	-
Deferred gain		**(9,639)**	(9,638)	**(28,915)**	(28,915)
Cash Flows (used in) Operating Activities		**(1,341,172)**	(2,757,786)	**(10,968,601)**	(6,968,928)
Financing Activities					
Proceeds from issuance of Series A Preferred Stock	16	**-**	-	**-**	5,207,881
Proceeds from issuance of Series B units	16	**-**	-	**1,857,166**	-
Proceeds raised from Concurrent Financing	16	**-**	-	**14,587,132**	-
Payments received on notes receivable from related party		**-**	572,357	**-**	(1,124,348)
Proceeds from notes payable	13	**-**	(214,500)	**-**	5,185,500
Repayment of notes payable to related party	13	**(460,616)**	-	**(1,750,886)**	-
Proceeds from exercise of stock options		**-**	12,501	**71,414**	13,438
Distribution to non-controlling interest		**-**	-	**-**	(400,000)
Cash Flows (used in) provided by Financing Activities		**(460,616)**	370,358	**14,764,826**	8,882,471
Investing Activities					
Cash acquired on reverse takeover	4	**-**	-	**210,143**	-
Investments in San Leandro	9	**(132,763)**	(112,199)	**(860,763)**	(429,042)
Additions of property, plant and equipment	10	**(491,564)**	(148,950)	**(3,232,597)**	(2,246,235)
Cash Flows (used in) Investing Activities		**(624,327)**	(261,149)	**(3,883,217)**	(2,675,277)
Decrease in cash		**(2,426,115)**	(2,648,577)	**(86,992)**	(761,734)
Effects of foreign exchange on cash		**(295,925)**	-	**(286,798)**	-
Cash, beginning of period		**19,348,258**	4,303,399	**17,000,008**	2,416,556
Cash, end of period		**16,626,218**	1,654,822	**16,626,218**	1,654,822

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

HARBORSIDE INC. (formerly Lineage Grow Company Ltd.)

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended September 30, 2019 and 2018
(Expressed in United States Dollars)

	Share Capital	Contributed Surplus	Warrants	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total
	$	$	$	$	$	$	$
Balance, January 1, 2018	**110,949**	**279,489**	**-**	**(18,216,975)**	**-**	**9,139,504**	**(8,687,033)**
Adjustment on adoption of IFRS 9 - credit loss reserve	-	-	-	(493,740)	-	-	(493,740)
Exercise of stock options	13,438	-	-	-	-	-	13,438
Series A Preferred Stock dividends	-	-	-	(601,857)	-	-	(601,857)
Series A Preferred Stock offering	5,500,000	-	-	-	-	-	5,500,000
Share issuance costs	(292,119)	-	-	-	-	-	(292,119)
Conversion of notes payable to Series A Preferred Stock	12,304,398	-	-	-	-	-	12,304,398
Purchase of NCI by issuance of Series B Common Stock	9,000,000	-	-	(260,496)	-	(8,739,504)	-
Fair value of derivative liabilities - Series A-1 Preferred Stock	(11,726,940)	-	-	-	-	-	(11,726,940)
Share-based compensation	-	3,197,464	-	-	-	-	3,197,464
Net loss for the period	-	-	-	(13,949,795)	-	(400,000)	(14,349,795)
Balance, September 30, 2018	**14,909,726**	**3,476,953**	**-**	**(33,522,863)**	**-**	**-**	**(15,136,184)**
Balance, January 1, 2019	**14,338,143**	**4,488,422**	**1,022,772**	**(40,427,152)**	**-**	**-**	**(20,577,815)**
Exercise of stock options	90,869	(19,456)	-	-	-	-	71,413
Series A Preferred Stock dividends	-	-	-	973,008	-	-	973,008
Concurrent raise Offering	14,587,132	-	-	-	-	-	14,587,132
Share Issuance Costs	(1,222,492)	-	-	-	-	-	(1,222,492)
Issuance on reverse takeover	6,988,882	-	-	-	-	-	6,988,882
Issuance of shares as settlement for interest payable	2,253,719	-	-	-	-	-	2,253,719
Conversion of convertible debentures	35,727,116	-	-	-	-	-	35,727,116
Issuance of broker warrants	-	-	1,222,492	-	-	-	1,222,492
Fair value of derivative liability - concurrent raise warrants	(3,890,186)	-	-	-	-	-	(3,890,186)
Share-based compensation	-	4,159,490	-	-	-	-	4,159,490
Share-based payment	2,252,479	-	-	-	-	-	2,252,479
Net loss for the period	-	-	-	(22,932,691)	(40,879)	-	(22,973,570)
Balance, September 30, 2019	**71,125,662**	**8,628,456**	**2,245,264**	**(62,386,835)**	**(40,879)**	**-**	**19,571,668**

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS

Harborside operates two (2) major dispensaries in the San Francisco Bay Area (the "Bay Area"), and also has a facility in Southern California. Harborside also is opening its third Northern California facility and first Southern California facility in late 2019. The Company also operates a cultivation facility in Salinas, California, and two (2) dispensaries in the State of Oregon in the United Stated (the "US"). The Company is focused on maintaining and building its position as one (1) of California's premier vertically integrated cannabis companies.

On May 30, 2019, FLRish, Inc. ("FLRish") and Lineage Grow Company Ltd. ("Lineage") completed a reverse takeover transaction ("RTO Transaction"), providing for the acquisition by Lineage of all of the issued and outstanding common shares of FLRish, by way of a "three-cornered" merger, whereby FLRish became a wholly-owned subsidiary of Lineage. Pursuant to the terms of the merger agreement (the "Merger Agreement") dated February 8, 2019, and concurrent with the closing of the RTO Transaction, Lineage consolidated its common shares on the basis of approximately 41.82 common shares into one (1) new common share (the "Consolidation") which were reclassified as post-Consolidation common shares as subordinate voting shares ("SVS") of the resulting entity (the "Resulting Issuer"), created a new class of multiple voting shares ("MVS") of the Resulting Issuer, and changed its name to Harborside Inc. Holders of shares of FLRish received MVS, SVS, or a combination thereof, for each share of FLRish outstanding immediately prior to completion of the RTO Transaction. As a result of the RTO Transaction, the unaudited condensed interim consolidated statements of financial position are presented as a continuance of FLRish and all comparative figures presented in the unaudited condensed interim consolidated financial statements are those of FLRish. See Note 4 for details.

The Company's SVS are listed on the Canadian Securities Exchange under the trading symbol "HBOR".

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

The business of cannabis operations involves a high degree of risk, and there is no assurance that any prospective project in the medical and/or adult-use cannabis industry will be successfully initiated or completed. Further, regulatory evolution and uncertainty may require the Company to alter its business plan and make further investments to react to regulatory changes.

These unaudited condensed interim consolidated financial statements have been prepared on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will continue to be successful in the future.

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

2. BASIS OF PRESENTATION

2.1 Statement of Compliance

The Company's unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting. Accordingly, they do not include all of the information and disclosures required by IFRS for annual financial statements.

2. BASIS OF PRESENTATION (continued)

2.1 Statement of Compliance (continued)

These unaudited condensed interim consolidated financial statements were reviewed, approved and authorized for issue by the Company's Board of Directors (the "Board") on November 20, 2019.

2.2 Basis of Measurement

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2.3 Basis of Consolidation

These unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and 2018, incorporate the accounts of the Company and its subsidiaries as follows:

	Jurisdiction
Harborside Inc.	Ontario, Canada
Lakeside Minerals Corp. ("Lakeside")	Ontario, Canada
Unite Capital Corp. ("Unite Capital")	Ontario, Canada
LGC Holdings USA, Inc.	Nevada, US
LGC Real Estate Holdings, LLC	Nevada, US
LGC Real Estate (Colorado), LLC	Nevada, US
LGC Operations, LLC	Nevada, US
Lineage GCL Oregon Corporation	Oregon, US
LGC LOR DIS 1, LLC	Oregon, US
LGC LOR DIS 2, LLC	Oregon, US
Lineage GCL California, LLC ("Lineage GCL California")	California, US
Lineage Merger Sub Inc.	Delaware, US
FLRish, Inc.	California, US
FLRish IP, LLC	California, US
FLRish Retail, LLC	California, US
FLRish Retail Management & Security Services, LLC	California, US
FLRish Retail Affiliates, LLC	California, US
FLRish Flagship Enterprises, Inc.	California, US
FLRish Farms, Inc.	California, US
Savature Inc. ("Savature")	California, US
SaVaca, LLC	California, US
FFC1, LLC	California, US
FLRish Farms Cultivation 8, LLC	California, US
Patients Mutual Assistance Collective Corporation ("PMACC")	California, US
San Jose Wellness ("SJW")	California, US

The unaudited condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

2.4 Functional Currency

Unless otherwise indicated, these unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and 2018, are presented in United States dollars ($ or "USD"), which is the Company's functional currency. The Company had assessed that following the completion of the RTO Transaction, the USD best represent the currency of the primary economic environment in which the Company currently operates.

2. BASIS OF PRESENTATION (continued)

2.5 Significant Accounting Judgments and Estimates

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

Business combination

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

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or an asset acquisition can have a significant impact on the entries made on and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Going concern

At the end of each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations.

Fair value of biological assets and inventories

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

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

Significant assumptions used in determining the fair value of cannabis plants also include:

- Wastage of plants based on various stages;
- Costs incurred and costs at different stages in the growing cycle of the plants were estimated by calculating an average of total growing costs over the total production period;
- Expected yields for cannabis on plants to be harvested, by strain of plant; and
- Percentage of costs incurred as a percent of total cost was applied to the total fair value per gram, which is determined based on market prices of cannabis.

2. BASIS OF PRESENTATION (continued)

2.5 Significant Accounting Judgments and Estimates (continued)

Fair value of biological assets and inventories (continued)

The valuation of work in process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventories. The Company must also determine if the cost of any inventories exceeds its net realizable value ("NRV"), such as cases where prices have decreased, or inventories had spoiled or otherwise been damaged.

Fair value of financial assets and financial liabilities

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

Intangible assets

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

Determination of cash generating units

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

Impairment

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

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the CGU to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

2. BASIS OF PRESENTATION (continued)

2.5 Significant Accounting Judgments and Estimates (continued)

Income taxes

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

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

Share-based payment transactions and warrants

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

Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECL") for all debt financial assets not held at fair value through profit or loss ("FVTPL") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Derivative liabilities

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these unaudited condensed interim consolidated financial statements are the same as those noted in FLRish's audited consolidated financial statements for the year ended December 31, 2018, and in Lineage's audited consolidated financial statements for the year ended January 31, 2019, unless otherwise noted below. The following is a summary of some of the more significant accounting policies applied by the Company:

3.1 Revenue with Customers

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

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

Revenue is recognized at the fair value of consideration received. Net revenue from sale of goods, as presented in the unaudited condensed interim consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less expected price discounts.

The Company's sales of cannabis and related merchandise and other products consist of one (1) performance obligation. The Company has concluded that revenue from the sale of products should be recognized at the point in time when control is transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer.

3.2 Inventories

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

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

3.3 Biological Assets

The Company's biological assets consist of cannabis plants. These biological assets are measured at fair value less costs to sell and costs to complete. At the point of harvest, the biological assets are transferred to inventories at their fair value less costs to sell and costs to complete. All direct and indirect costs related to biological assets are capitalized as they are incurred, and expensed when the related item is sold.

While the Company's biological assets are within the scope of IAS 41 – Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 –Inventories. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labor for individuals involved in the growing and quality control process is also included, as well as overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item 'cost of goods sold' in the period that the related product is sold. Unrealized fair value changes on growth of biological assets are recorded profit or loss. Biological assets are measured at their fair value less costs to sell on the unaudited condensed interim consolidated statements of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the unaudited condensed interim consolidated statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (a) those to be measured subsequently at FVTPL; (b) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and (c) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss.

The Company reclassifies financial assets when its business model for managing those assets changes. Financial liabilities are not reclassified.

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest ("SPPI") criterion. Financial asset classified in this category are measured at amortized cost using the effective interest method.

Expected credit loss impairment model

IFRS 9 – Financial Instruments ("IFRS 9") introduced a single ECL impairment model, which is based on changes in credit quality since initial application. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

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

Fair value through profit or loss

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income (loss).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Financial Instruments (continued)

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (loss) (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income (loss).

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

	Classification	Measurement
Cash	Amortized cost	Amortized cost
Accounts receivable (excluding tax recoverable)	Amortized cost	Amortized cost
Notes receivable	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Investments and advances	Amortized cost / FVTPL	Amortized cost / FVTPL
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost
Notes payable	Amortized cost	Amortized cost
Derivative liabilities	FVTPL	FVTPL

3.5 Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life, amortization method, and residual values are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or CGUs which are expected to benefit from the synergies of the combination.

Goodwill has an indefinite useful life that is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment on goodwill is determined by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any impairment loss for goodwill is recognized directly in profit or loss and any impairment loss recognized for goodwill is not reversed in subsequent periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Provisions

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

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

3.7 Adoption of New Accounting Policies

The Company adopted the following standards, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

IFRS 16 – Leases (“IFRS 16”)

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset (“RUA”) and a lease liability. The RUA is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the RUA at cost less accumulated amortization and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. The Company has applied IFRS 16 with an initial application date of January 1, 2019, in accordance with the transitional provisions specified in IFRS 16. The Company is applying the simplified transition approach and is currently finalizing the quantitative impact on adoption of IFRS 16 on its existing lease obligations.

IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”)

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The IFRS Interpretations Committee (“IFRIC”) concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. On adoption of IFRIC 23, the Company had assessed that there was no material impact on its unaudited condensed interim consolidated financial statements.

3.8 Recent Accounting Pronouncements

At the date of authorization of these unaudited condensed interim consolidated financial statements, the IASB and IFRIC had issued certain pronouncements that are mandatory for the Company’s accounting periods commencing on or after January 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Recent Accounting Pronouncements (continued)

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

IAS 1 and IAS 8 were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

4. BUSINESS COMBINATION

On May 30, 2019, Lineage and FLRish completed the RTO Transaction, resulting in the former shareholders of FLRish holding a majority of the outstanding share capital of the resulting issuer. The substance of the RTO Transaction is a reverse acquisition, such that the RTO Transaction has been accounted for as a capital transaction with FLRish being identified as the acquirer and the equity consideration being measured at fair value, using the acquisition method of accounting. The RTO Transaction has been accounted for in these unaudited condensed interim consolidated financial statements as a continuation of the financial statements of FLRish, together with a deemed issuance of securities equivalent to the shares held by the former shareholders of Lineage.

The following table sets forth a preliminary allocation of the purchase price to the assets acquired, based on a preliminary estimate of fair value. Final valuations of assets and liabilities are not yet complete due to the timing of the RTO Transaction and the inherent complexity associated with the valuations. The preliminary allocation is subject to adjustment.

Purchase Price Allocation

Purchase Price Consideration Paid	
	$
Fair value of SVS issued (i)	**6,988,882**
Fair value of options issued (ii)	**293,154**
Fair value of warrants issued (iii)	**67,985**
	7,350,021

Net Identifiable Assets Acquired	
	$
Cash	**210,143**
Accounts receivable	**61,243**
Inventories	**84,101**
Prepaid expenses	**19,544**
Investments and advances	**2,302,742**
Right-of-use assets	**435,049**
Intangible assets	**1,081,742**
Liabilities assumed	**(699,758)**
Derivative liabilities	**(123,594)**
Other debts assumed	**(2,778,033)**
Income tax payable	**(39,727)**
Deferred tax liability	**(117,015)**
Total net identifiable assets acquired	**436,437**
Goodwill	**6,913,584**

4. BUSINESS ACQUISITION (continued)

Purchase Price Allocation (continued)

The Company determined that the RTO Transaction was a business combination in accordance to the definition of IFRS 3 – Business Combination, and as such, has accounted for it in accordance with this standard, with FLRish being the accounting acquirer on the acquisition date of May 30, 2019. Consideration consisted entirely of shares, options and warrants of the Company which were measured at the estimated fair value on the date of closing of the RTO Transaction:

(i) The fair value of the 1,817,109 SVS, issued to former Lineage shareholders, was determined to be $6,988,882, based on the fair value of shares issued through the concurrent financing (as defined in Note 18) on May 17, 2019.

(ii) The estimated fair value of the 134,232 post-Consolidation options issued as consideration are based on the Black-Scholes valuation model with the following assumptions: implied share price – CAD $5.19 per share, Consolidation-adjusted exercise price of CAD $4.18 to $10.45, expected dividend yield – 0%, expected volatility – 90%, risk-free interest rate – 1.47% to 1.52% and expected life of 2.54 to 4.55 years. In making the assumptions for expected volatility, the Company used the estimated average volatility of the cannabis industry. As the exercise price of these options are denominated in CAD, these options are accounted for as derivative liabilities as their fair value is affected by changes in foreign exchange rate.

(iii) The estimated fair value of the 308,662 post-Consolidation warrants issued as consideration are based on the Black-Scholes valuation model with the following assumptions: implied share price – CAD $5.19 per share, Consolidation-adjusted exercise price of CAD $10.45 to $13.59, expected dividend yield – 0%, expected volatility – 90%, risk-free interest rate – 1.71% and an expected life of 0.65 to 0.72 years. In making the assumptions for expected volatility, the Company used the estimated average volatility of the cannabis industry. As the exercise price of these warrants are denominated in CAD, these warrants are accounted for as derivative liabilities as their fair value is affected by changes in foreign exchange rate.

Goodwill of $6,913,584, which is not tax deductible, was recognized due to the expected synergies from combining the operations of Lineage and FLRish.

5. ACCOUNTS RECEIVABLES

	September 30, 2019	December 31, 2018
	$	$
Trade receivables	**1,358,309**	643,303
Sales tax receivables [(i)]	**125,808**	-
	1,484,147	643,303

[(i)] The Company's sales tax receivables arise from harmonized sales tax refunds and amounts due from government taxation authorities. The Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables, which are due in less than a year.

6. INVENTORIES

As at September 30, 2019, inventories consisted of cannabis products as follows:

	September 30, 2019	December 31, 2018
	$	$
Products for resale	**1,894,643**	1,261,162
Finished goods	**2,266,337**	2,431,689
	4,160,980	3,692,851

During the nine months ended September 30, 2019, inventories of $24,564,537 (2018 – $24,999,368) were expensed and included in cost of goods sold.

7. BIOLOGICAL ASSETS

Biological assets consist of immature cannabis plants. Once harvested, biological assets are transferred to inventories. The Company's biological assets are consumable in nature. The Company values biological assets at three (3) stages prior to harvest, as follows:

- Cloning – the stage at which the plant is developing roots;
- Vegetative – the stage after the plant has developed roots and is on a 24 hour grow cycle; and
- Flowering – the stage at which the plant has achieved sufficient size to produce cannabis flowers.

As at September 30, 2019, the carrying values of biological assets are as follows:

Stage ($ value)	**Count**	**Total value**
	Units	$
Vegetative ($25 each)	18,357	458,925
Flowering ($85 each)	26,512	2,253,520
Balance, September 30, 2019	**44,869**	**2,712,445**

Stage ($ value)	**Count**	**Total value**
	Units	$
Cloning ($6 each)	6,812	40,872
Vegetative ($25 each)	32,047	801,175
Flowering ($85 each)	33,421	2,840,785
Balance, December 31, 2018	**72,280**	**3,682,832**

8. PREPAID EXPENSES

As at September 30, 2019, prepaid expenses consisted of the following:

	September 30, 2019	December 31, 2018
	$	$
Insurance and rent	**423,760**	23,584
Advances made to suppliers and consultants	**97,770**	46,000
Exercise taxes	**402,503**	1,149,408
Payroll and income taxes	**704,031**	-
Others	**236,319**	-
	1,864,383	1,218,992

9. INVESTMENTS AND ADVANCES

San Leandro Wellness Solutions

On December 25, 2017, PMACC completed the acquisition of 50% of the 100,000 authorized and issued common shares of SLWS, for the purchase price of $3,055,000 to be satisfied with a promissory note in the principal amount of $3,055,000 payable to FLRish, as the seller. Due to the interest rate on the promissory note being below market rate, PMACC had discounted the note payable and investment in SLWS in the amount of $2,165,814 based on a 12% annual interest rate. Prior to completing the purchase, PMACC had advanced $82,234 to SLWS. As a result of the exercise of the Merger Option, Harborside indirectly acquired this 50% ownership interest in SLWS.

As at September 30, 2019, the total net investment in SLWS was $2,752,755 (December 31, 2018 – $1,891,992).

Subsequent to September 30, 2019, the Company acquired full ownership of SLWS (see Note 25).

Altai Partners, LLC

On March 28, 2018, Lineage entered into a binding letter of intent to acquire a 100% interest in Altai Partners, LLC (“Altai”), a limited liability company operating out of California (the “Altai Acquisition”). Altai had an agreement in place, dated March 15, 2018, to acquire a 45% interest in Lucrum Enterprises Inc., d/b/a LUX Cannabis Dispensary (“LUX”), a licensed dispensary operating in San Jose.

On March 28, 2018, Altai entered into an additional agreement to acquire the remaining 55% ownership interest in LUX. Accordingly, the Company will acquire an indirect 100% ownership interest in LUX through its purchase of a 100% interest in Altai. The purchase price for the Altai Acquisition is $5,400,000, payable on or prior to closing, comprised of:

(a) $1,950,000 payable in cash; and

(b) $3,450,000 payable by the issuance of SVS in the capital of the Company.

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

(c) $750,000 will be lent to Altai under promissory notes bearing at 12% annual interest. The promissory notes will become loans to subsidiary after completion of the Altai Acquisition; and

(d) The Company, under its ownership of Altai, will assume $1,200,000 in payment obligations towards Altai’s purchase of LUX. This obligation includes four (4) cash payments to LUX shareholders of $300,000 each.

As at September 30, 2019, the Company had advanced total funds of $1.80 million to Altai, comprised of:

(i) Total advances of $1,050,000; and

(ii) Funds of $750,000 in the form of two (2) promissory notes, issued at $250,000 and $500,000, respectively. These promissory notes will become a loan to subsidiary after completion of the Altai Acquisition. Should the Altai Acquisition not ultimately close, the advances will be repaid to the Company.

As at September 30, 2019, the total advances made to Altai, including accrued interest on the promissory notes, were recorded at an amortized cost of $1,756,759.

Completion of the Altai Acquisition is subject to satisfactory completion of due diligence, execution of a definitive agreement, required approvals and consents, as well as the completion of Altai’s acquisition of 100% ownership interest in LUX. The Company expects the Altai Acquisition to be completed by the end of the fourth quarter of 2019.

9. INVESTMENTS AND ADVANCES (continued)

Walnut Oaks, LLC

On June 12, 2018, Lineage entered into a term sheet (the "Term Sheet") to acquire California-based Walnut Oaks, LLC d/b/a Agris Farms ("Agris Farms"). Agris Farms operates a craft cannabis cultivation facility in Yolo County in Northern California. Pursuant to the Term Sheet, the Company would acquire a 51% interest in Agris Farms based on an implied enterprise value of $6,600,000. Consideration would be in the form of shares and the assumption of liabilities. The Company would have an option to acquire the remaining 49% of Agris Farm within six (6) months from closing for share consideration.

On November 20, 2018, the Company, through Lineage GCL California, entered into a Membership Interest Purchase Agreement (the "Agris Agreement") to acquire a 100% ownership interest in Agris Farm (the "Agris Acquisition"). The Agris Agreement superseded the Term Sheet in its entirety.

The aggregate purchase price payable under the Agris Acquisition is $6,600,000 payable on closing, comprised of:

(a) An amount of $2,148,880 payable on closing by the issuance of the Company's SVS at a price of CAD $6.90 per SVS and/or MVS at a price of CAD $690.00 per MVS;

(b) The assumption of liabilities in the aggregate amount of $2,951,120 which is to be settled as follows:

  (i) $451,120 payable in cash which had been paid;

  (ii) $1,000,000 convertible on closing, into the Company's SVS at a price of CAD $6.90 per SVS and/or MVS at a price of CAD $690.00 per MVS; and

  (iii) $1,500,000 which, on closing, the Company will assume as a subordinate note owing to a third-party lender who will be granted a put option by Harborside in favor of the holder where the note holder can choose to convert the subordinate note into 251,087 units of one SVS and one half of a warrant to acquire SVS at a conversion price of CAD $7.945 per unit with the full warrant exercisable into a SVS at an exercise price of CAD $10.45 (or 2,510 units of one MVS and one half of a warrant to acquire MVS at a conversion price of CAD $794.50 per unit with the full warrant exercisable into a MVS at an exercise price of CAD $1,045.00) On closing, the third-party will have a general security interest over all assets of Walnut Oaks.

(c) A cash investment into Walnut Oaks in the amount of $1,500,000 of which $238,128 was subscription for the purchase of 698.17 membership units (approximately 6.53%) of Walnut Oaks and the excess of $1,261,872 as advances. The advances had previously been written down by Lineage, prior to completion of the RTO Transaction, as their recoverability was uncertain.

The sellers may also be entitled to receive an additional earn-out payment equal to six (6) times of any EBITDA in excess of $1.1 million.

On August 29, 2019, management determined that the Company would not proceed with the Agris Acquisition, having assessed that the transaction is not in furtherance of the Company's goals or strategy. As a result, the Company recorded an impairment loss of $238,128 on the investment of Walnut Oaks. The Company also recorded an allowance of ECL of $338,332 on advances paid on assumption of certain liabilities.

Airfield Supply Company

On April 23, 2019, the Company entered into a definitive stock purchase agreement with Airfield Supply Company ("Airfield") and its owner pursuant to which, among other things, the Company would acquire 100% of the outstanding capital stock of Airfield (the "Airfield Transaction") for a purchase price that is based on the following formula: an average of (x) 1.3x Airfield's revenue and (y) 7x Airfield's EBITDA, in each case of the period commencing April 1, 2018 through March 1, 2019.

9. INVESTMENTS AND ADVANCES (continued)

Airfield Supply Company (continued)

On August 29, 2019, management determined that the Company would not proceed with the Airfield Transaction, in light of the substantial cash component of the purchase price which management has determined is not in the best interests of shareholders. As a result, the Company recorded an impairment loss of $1 million on a non-refundable deposit in relation to the Airfield Transaction.

10. PROPERTY, PLANT AND EQUIPMENT

As at September 30, 2019, the Company's property, plant and equipment consisted of the following:

	Agricultural buildings	Agricultural equipment	CIP	Furniture and fixtures	Vehicles	Office and computer equipment	Security equipment	Leasehold improvements	TOTAL
	$	$	$	$	$	$	$	$	$
At Cost									
As at December 31, 2018	2,660,019	3,218,803	3,953,041	7,997	58,832	1,473,089	25,419	1,732,898	13,130,098
Additions	85,412	47,289	3,409,297	-	-	59,132	-	48,016	3,649,147
As at September 30, 2019	**2,745,431**	**3,266,092**	**7,362,338**	**7,997**	**58,832**	**1,532,221**	**25,419**	**1,780,914**	**16,779,245**
Accumulated Depreciation									
As at December 31, 2018	144,191	546,062	-	2,665	29,302	1,134,419	5,629	866,262	2,728,530
Depreciation expense	136,130	483,368	-	858	8,825	123,572	3,813	94,507	851,073
As at September 30, 2019	**280,321**	**1,029,430**	**-**	**3,523**	**38,127**	**1,257,991**	**9,442**	**960,769**	**3,579,603**
Net Book Value									
As at December 31, 2018	2,515,828	2,672,741	3,953,041	5,332	29,530	338,670	19,790	866,636	10,401,568
As at September 30, 2019	**2,465,110**	**2,236,662**	**7,362,338**	**4,474**	**20,705**	**274,230**	**15,977**	**820,145**	**13,199,642**

11. RIGHT-OF-USE ASSETS

As at September 30, 2019, RUA consist of the following:

	Rental Leases
	$
Cost at:	
December 31, 2019	**-**
RUA acquired on RTO Transaction (Note 4)	**435,049**
September 30, 2019	**435,049**
Accumulated amortization at:	
December 31, 2018	**-**
Amortization	**20,952**
September 30, 2019	**20,952**
Net book value:	
December 31, 2018	**-**
September 30, 2019	**414,097**

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

The following is an aged analysis of the Company's accounts payable and accrued liabilities:

	September 30, 2019	December 31, 2018
	$	$
Less than 90 days	**12,481,345**	11,956,627
Greater than 90 days	**1,090,305**	671,975
	13,571,650	12,686,002

13. NOTES PAYABLE

On July 18, 2017, Savature entered into a loan agreement (the "CFP Loan") with CFP Fund I, LLC ("CFP"). Pursuant to the terms of the CFP Loan, the Company may borrow up to $9,300,000 in increments of no less than $100,000. The CFP Loan carries a 15% annual interest rate and has a five-year term. Interest accrued on the CFP Loan is paid monthly. The CFP Loan is collateralized by all assets owned by Savature. The CFP Loan was converted to a term loan upon final draw down of the available loan amount for a total $9,300,000 on May 3, 2018, with a 60-month term maturing June 1, 2023.

On September 7, 2018, FLRish received a notice of default (the "Notice") from CFP. Management responded to the Notice and believes all items identified in the Notice have been cured. In response, FLRish asserted its default remedies against CFP to reduce loan principal consistent with terms outlined in the loan documents. On December 17, 2018, FLRish entered into a settlement agreement with CFP, pursuant to which the parties agreed to settle all claims with respect to the loan.

The terms of the settlement agreement provide that FLRish shall pay to CFP all outstanding principal balance at December 17, 2018 as follows: $2,000,000 payable in monthly installments ending in September 2019 and issuance of 8,624 series B debenture units on the same terms as those offered in FLRish's series B unit offering which closed on February 6, 2019.

On July 26, 2019, the CFP Loan was repaid in full. During the nine months ended September 30, 2019, a total amount of $1,750,886, including accreted interest, was made to settle the CFP Loan.

The CFP Loan requires Savature to meet certain financial covenants, for which the Company was in compliance with all financial covenants as of the repayment date.

14. CONVERTIBLE DEBENTURES

Series B Convertible Debentures

In October and November 2018, FLRish completed a private placement (the "Unit Offering") of 34,778 units (the "Series B Debenture Units") at a price of CAD $1,000 per Series B Debenture Unit (the "Offering Price") for aggregate gross proceeds of $26,410,135. FLRish completed the initial closing of the Unit Offering on October 30, 2018, with the issuance and sale of 6,212 Series B Debenture Units. On November 16, 2018, FLRish completed the second closing of the Unit Offering with the issuance and sale of 28,566 Series B Debenture Units. On December 17, 2018, FLRish completed a third closing of the Unit Offering with the issuance and sale of 2,450 Series B Debenture Units for additional gross proceeds of $1,857,166.

Each Series B Debenture Unit was comprised of CAD $1,000 principal amount of 12.0% unsecured convertible debentures ("Debentures") and 87 share purchase warrants ("Series B Warrants").

14. CONVERTIBLE DEBENTURES (continued)

Series B Convertible Debentures (continued)

The Debentures were governed by a debenture indenture dated as of October 30, 2018, between FLRish and Odyssey Trust Company, as debenture trustee, which is also the transfer agent of the Company. The Debentures would have matured on October 30, 2021 (the "Maturity Date"), and bear interest at a rate of 12.0% per annum, payable, semi-annually in arrears. Interest was payable in cash or by issuing shares of Series B Common Stock (as defined below) of FLRish ("Underlying Shares") at a price of $4.15 (CAD $6.90) per share. The principal amount of each Debenture was convertible into Underlying Shares at the option of the holder at any time prior to the Maturity Date and automatically upon completion of a going public transaction at a conversion price equal to the lower of: (a) CAD $6.90; or (b) a 10% discount to the Resulting Issuer's share price at listing for a financing equal to CAD $5,000,000 or greater, subject to adjustment. Each Series B Warrant was exercisable into one (1) Underlying Share at a price of $6.45 (CAD $8.60) per share until October 30, 2020, subject to adjustment and/or acceleration in certain circumstances.

The conversion price of the Series B Debenture Units and the exercise price of the Series B Warrants issued are denominated in a currency other than the Company's functional currency. As such, the conversion feature has been bifurcated from the underlying host and is being accounted for as a derivative liability along with the warrants in accordance with IFRS 9.

Immediately prior to the RTO Transaction, the Debentures were converted, pursuant to their terms, into Underlying Shares. Each Underlying Share was exchanged for 1/100 of an MVS upon the closing of the RTO Transaction.

Secured Convertible Notes

On August 29, 2018, Lineage acquired Terpene Station (the "Terpene Acquisition"), an Oregon-based cannabis retailer engaged in the selling of cannabis products. As consideration paid for the Terpene Acquisition, Lineage issued a secured convertible promissory note (the "Secured Convertible Note") to the seller in the aggregate amount of $800,000, issued in two (2) separate notes in the principal amounts of $400,000 each. The Secured Convertible Notes are convertible at the option of the holder, into SVS at a conversion price of CAD $0.35 per share (unadjusted for the Consolidation). Interest will accrue on the principal amount at 12% per annum until the earlier of (a) repayment in full of the Secured Convertible Notes or (b) on conversion.

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

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

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

(iii) The balance on the third anniversary of the Secured Convertible Notes, if the Conversion Option is not exercised 30 days before the three (3) year anniversary of the Secured Convertible Notes.

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

14. CONVERTIBLE DEBENTURES (continued)

Secured Convertible Notes (continued)

The following table reflects the changes to the Secured Convertible Notes for the period ended September 30, 2019:

	$
Balance, December 31, 2018	**-**
Secured Convertible Notes assumed on RTO Transaction (Note 4)	770,009
Interest and accretion expense	53,062
Balance, September 30, 2019	**823,071**

The changes to the embedded derivative liabilities related to the Secured Convertible Notes are as follows:

	$
Balance, December 31, 2018	**-**
Derivative liabilities assumed on RTO Transaction (Note 4)	123,594
Fair value changes of derivative liabilities	(15,932)
Balance, September 30, 2019	**107,662**

15. DERIVATIVE LIABILITIES

The following is a reconciliation of the derivative liabilities balances as at September 30, 2019:

	Debentures	Series A Derivative Liability	Debentures Derivative Liability	Warrants Derivative Liability	RTO Options & Warrants Derivative Liability	Total Derivative Liabilities	Change in Fair Value (recorded in P&L)
	$	$	$	$	$	$	$
Balance, December 31, 2017	-	-	-	-	-	-	-
Fair value of derivative liabilities on issuance date	18,631,134	12,773,435	9,764,246	5,885,061	-	28,422,743	-
Financing costs at issuance	(1,270,294)	-	-	-	-	-	-
Accretion of balance	808,561	-	-	-	-	-	808,561
Change in fair value of derivative liabilities	-	510,272	(621,945)	(184,325)	-	(295,997)	(295,997)
Change due to foreign exchange	(489,635)	-	-	-	-	-	(489,635)
Balance, December 31, 2018	**17,679,766**	**13,283,707**	**9,142,301**	**5,700,737**	**-**	**28,126,745**	**22,929**
Fair value of derivative liabilities on issuance date	1,029,643	-	514,079	4,203,630	-	4,717,709	-
Fair value of derivative liabilities on RTO Transaction	-	-	-	-	361,139	361,139	-
Accretion of balance	3,604,440	-	-	-	-	-	3,604,440
Change in fair value of derivative liabilities	-	(1,990,304)	(5,445,049)	(9,467,517)	(295,251)	(17,198,121)	(17,198,121)
Change due to foreign exchange	(879,182)	-	-	-	-	-	(879,182)
Conversion to common shares	(21,434,667)	(11,293,403)	(4,211,332)	-	-	(15,504,735)	-
Balance, September 30, 2019	**-**	**-**	**-**	**436,850**	**65,888**	**502,738**	**(14,472,863)**

Series A Preferred Stock Derivative Liability

The IASB has issued authoritative guidance whereby instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The conversion price of the series A-1 preferred stock ("Series A-1 Preferred Stock") and series A-2 preferred stock ("Series A-2 Preferred Stock") of FLRish as described in Note 17 was not a fixed amount because it was subject to an adjustment based on the occurrence of future offerings. Since the number of shares is not explicitly limited, the Company was unable to conclude that enough authorized and unissued shares are available to settle the conversion option. In accordance with the IFRS authoritative guidance, the conversion feature has been characterized as a derivative liability to be re-measured at the end of each reporting period with the change in fair value reported in profit or loss.

15. DERIVATIVE LIABILITIES (continued)

Series A Preferred Stock Derivative Liability (continued)

As of the dates of issuance of the Series A-1 Preferred Stock and Series A-2 Preferred Stock, December 31, 2018 and the mandatory conversion date of May 30, 2019 (see below), the derivative liability was valued using the Monte Carlo model with the following assumptions:

	At Issuance	December 31, 2018	May 30, 2019
Risk-free interest rate	3.5%	3.5%	3.5%
Exercise price	$2.27 – $4.15	$2.27 – $4.15	$2.50 – $4.15
Share price	$3.74	$4.43	$4.64
Expected volatility	98.22% - 104.81%	83.79% - 104.82%	48.51% - 54.01%
Expected remaining life (in years)	1.00 – 2.00	0.33 – 2.00	0.04 – 0.08
Expected dividend	8%	8%	8%
Fair value	$12,773,435	$13,283,707	$11,293,403

The risk-free interest rate was based on data from Duff & Phelps 2018 Valuation Handbook – Guide to Cost of Capital (the "Duff & Phelps Handbook"). The expected lives were based on the anticipated date to public offering. The expected dividend yield was based on the rate as stated in the terms of the Series A Preferred Stock. Volatility was calculated by using the historical volatility of other cannabis companies that the Company considers comparable that have trading and volatility history prior to the Company going public.

Upon completion of the RTO Transaction on May 30, 2019, the Series A-1 Preferred Stock was mandatorily converted into shares of FLRish Series B Common Stock, then ultimately into 1/100 of an MVS. As a result, the Series A Preferred Stock derivative liability was derecognized.

During the nine months ended September 30, 2019, the Company had recorded a decrease in fair value of $1,990,304 (year ended December 31, 2018 – $510,272) on the Series A Preferred Stock derivative liability.

Convertible Debentures Derivative Liability

As of October 30, 2018, November 16, 2018 and December 17, 2018, the dates of issuance of the Series B Debenture Units, and the automatic conversion date of May 30, 2019 (see below), the derivative liability related to the conversion feature was valued using Monte Carlo with the following assumptions:

	At Issuance	December 31, 2018	May 30, 2019
Risk-free interest rate	3.5%	3.5%	3.5%
Exercise price	$5.16 – $5.26	$5.06	$5.10
Share price	$4.33 – $4.82	$4.43	$4.64
Expected volatility	86.83% - 104.73%	83.79% - 104.82%	51.12% - 61.61%
Expected remaining life (in years)	0.25 – 1.50	0.33 – 1.33	0.04 – 0.08
Expected dividend	12%	12%	12%
Fair value	$10,278,325	$9,142,301	$4,211,331

The risk-free interest rate was based on data from the Duff & Phelps Handbook. The expected lives were based on the anticipated date of public listing. The expected interest was based on the rate as stated in the terms of the Debentures. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company going public.

As part of the RTO Transaction on May 30, 2019, the Debentures were automatically converted into the Underlying Shares, then ultimately exchanged for 1/100 of an MVS. As a result, the Debentures derivative liability was derecognized.

During the nine months ended September 30, 2019, the Company had recorded a decrease in fair value of $5,445,049 (year ended December 31, 2018 – $621,945) on the Debentures derivative liability.

15. DERIVATIVE LIABILITIES (continued)

Warrant Derivative Liability

As of October 30, 2018, November 16, 2018, December 17, 2018 and February 6, 2019, the various dates of issuance of the Series B Debenture Units, and as at September 30, 2019, the derivative liability related to the warrants was valued using Monte Carlo with the following assumptions:

	At Issuance	December 31, 2018	September 30, 2019
Risk-free interest rate	3.5%	3.5%	3.5%
Exercise price	$6.43 – $6.54	$6.31	$6.52
Share price	$4.33 – $4.71	$4.43	$1.47
Expected volatility	83.33% - 104.73%	83.79% - 104.82%	76.39%
Expected remaining life (in years)	0.37 – 1.50	0.33 – 1.33	1.08
Expected dividend	12%	12%	12%
Fair value	$6,201,238	$5,700,737	$116,207

The risk-free interest rate was based on data from the Duff & Phelps Handbook. The expected lives were based on the anticipated date of public listing. The expected interest was based on the rate as stated in the terms of the Debentures. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company going public.

During the nine months ended September 30, 2019, the Company had recorded a decrease in fair value of $5,815,652 (year ended December 31, 2018 – $184,325) on the Warrant Derivatives.

Warrant Derivative Liability – Concurrent Financing

As of May 17, 2019, the date of issuance of the subscription receipts of FLRish which converted into one (1) share of FLRish's Series D Common Stock (as defined below) and one (1) FLRish warrant, and as at September 30, 2019, the derivative liability related to the warrants was valued using Monte Carlo with the following assumptions:

	At Issuance	September 30, 2019
Risk-free interest rate	3.5%	3.5%
Exercise price	$6.68	$6.61
Share price	$4.64	$1.47
Expected volatility	90.72%	92.18%
Expected remaining life (in years)	2 years	1.63 years
Expected dividend	12%	2.06%
Fair value	$3,890,186	$320,643

The risk-free interest rate was based on data from the Duff & Phelps Handbook. The expected lives were based on the anticipated date of public listing. The expected interest was based on the rate as stated in the terms of the Series B Debentures. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company going public.

As part of the RTO Transaction on May 30, 2019, each share of Series D Common Stock was automatically exchanged for an SVS.

During the nine months ended September 30, 2019, the Company had recorded a decrease in fair value of $3,569,543 (year ended December 31, 2018 – $184,324) on derivative liability related to the warrants.

15. DERIVATIVE LIABILITIES (continued)

RTO Options and Warrants Derivative Liability

On May 30, 2019, the Company issued 134,232 post-Consolidation options to former Lineage option holders as valued at an estimated fair value of $293,154. There were also 308,662 post-Consolidation warrants for former Lineage warrant holders as valued at an estimated fair value of $67,985.

As at September 30, 2019, the option and warrant derivative liabilities are measured at estimated fair values of $65,860 and $32,348, respectively.

The Company used the Black-Scholes valuation model to estimate the fair value of the option and warrant derivative liabilities upon issuance on the completion of the RTO Transaction and as at June 30, 2019, using the following assumptions:

Options Derivative Liabilities

	May 30, 2019	**September 30, 2019**
Risk-free interest rate	1.47% - 1.52%	1.44% - 1.58%
Exercise price	CAD $4.18 - $10.45	CAD $4.18 - $10.45
Share price	CAD $5.19	CAD $1.95
Expected volatility	90%	90%
Expected remaining life (in years)	2.54 – 4.55	2.20 – 4.21
Fair value	$293,154	$65,860

During the nine months ended September 30, 2019, the Company had recorded a decrease in fair value of $227,294 on the options derivative liabilities.

Warrants Derivative Liabilities

	May 30, 2019	**September 30, 2019**
Risk-free interest rate	1.71%	1.67%
Exercise price	CAD $10.45 – $13.59	CAD $10.45 – $13.59
Share price	CAD $5.19	CAD $1.95
Expected volatility	90%	90%
Expected remaining life (in years)	0.65 – 0.72	0.32 – 0.38
Fair value	$67,985	$28

During the nine months ended September 30, 2019, the Company had recorded a decrease in fair value of $67,957 on the warrants derivative liabilities.

16. PROVISIONS

PMACC

PMACC was involved in three (3) US Tax Court cases, which were consolidated for trial and briefing. Each of these cases involve the same legal issue – the application of Internal Revenue Code ("IRC") Section 280E to the Company's business. Certain Tax Court precedent allows for an allocation between expenses that are directly related to "trafficking" in a controlled substance and expenses that are not. The Internal Revenue Service (the "IRS") accepted that the figures on the returns were substantiated and accurate, but nevertheless sought a complete disallowance of all expenses under 280E. The cases cover the corporate income tax returns for the fiscal years ended: July 31, 2007, July 31, 2008, July 31, 2009, July 31, 2010, July 31, 2011, and July 31, 2012.

16. PROVISIONS (continued)

PMACC (continued)

Through deficiency notices, the IRS asserted that PMACC is liable for a tax deficiency for each of these tax years. In addition, the IRS sought to impose negligence penalties pursuant to IRC Section 6661(a) for each tax year. The Company filed petitions contesting the IRS's findings and challenging the applicability of Section 280E to its operations. The cases were tried before the US Tax Court in June of 2016, and post-trial and reply briefs were submitted in January of 2017.

On November 30, 2018, the US Tax Court ruled that Section 280E applies to any business which consists of trafficking in a controlled substance, and such businesses may not deduct their ordinary and necessary business expenses.

Based on pre-trial stipulations pertaining to the above-referenced cases, the IRS has calculated the Company's liability for the above-referenced cases and the tax periods referenced above to be approximately $11 million (excluding interest as the Tax Court has declined to impose any penalties). As at September 30, 2019, the Company had recorded a one-time provision of $11 million in relation to the tax rulings (December 31, 2018 – $nil).

As management disagrees with the liability in its entirety, the Company fully intends to appeal this ruling to the Ninth Circuit (the "Ninth Circuit").

San Jose Wellness

SJW was involved in two (2) pending tax court cases, which both involve the application of 280E. Certain Tax Court precedent allows for an allocation between expenses that are directly related to "trafficking" in a controlled substance and expenses that are not. The IRS accepted that the figures on the returns were substantiated and accurate, but nevertheless seeks a complete disallowance of all expenses under 280E. The cases cover the 2010, 2011, and 2012 corporate income tax returns. Through deficiency notices, the IRS has asserted that the Company is liable for a tax deficiency totaling $2,120,215 for these periods. The Company has filed petitions to contest the applicability of 280E to its operations.

The SJW cases were stayed before the US Tax Court pending the outcome of the above-described tax cases involving PMACC. The Company estimates that the deficiencies in tax and penalties asserted by the IRS, not including interest calculations, are approximately $4.37 million. As at September 30, 2019, the Company had recorded a one-time provision of $4.37 million in relation to the tax rulings on SJW (December 31, 2018 – $nil).

However, as stated above, management disagrees with the liability in its entirety, and the Company fully intends to appeal this ruling to the Ninth Circuit.

17. SHARE CAPITAL

On June 12, 2018, FLRish filed its amended and restated articles of incorporation (the "Amended Articles"), as approved by the shareholders, setting forth various classes and series of FLRish shares. The Amended Articles authorized 91,000,000 common class stock and 20,000,000 shares of preferred class stock in the following series: Series A-1 Preferred Stock, Series A-2 Preferred Stock, Series A Common Stock, Series B Common Stock, and Series C Common Stock (all terms as defined herein).

On May 15, 2019 FLRish filed a Certificate of Amendment to the Amended Articles that created a class of Series D Common Stock and amended forth the amounts of authorized stock in each Series as follows:

- 11,000,000 Series A Common Stock;
- 35,000,000 Series B Common Stock;
- 15,000,000 Series C Common Stock;
- 30,000,000 Series D Common Stock;
- 6,250,000 Series A-1 Preferred Stock; and
- 6,250,000 shares of Series A-2 Preferred Stock.

17. SHARE CAPITAL (continued)

Series A-1 and Series A-2 Preferred Stock

The Series A-1 Preferred Stock was a class of voting preferred stock with certain anti-dilution rights for the purpose of protecting from any lower valued financing rounds, one (1) vote per share, certain liquidation preferences in case of an unqualified merger or sale and redemption rights accruing on April 30, 2023.

The Series A-2 Preferred Stock was a class of preferred stock equivalent to the Series A-1 Preferred Stock but without voting rights. The Board of the Company has the right to set the rights, privileges, preferences and obligations of any wholly unissued series of preferred stock.

As part of the RTO Transaction, the issued and outstanding Series A-1 Preferred Stock and Series A-2 Preferred Stock were converted, pursuant to their terms, into shares of FLRish Series B Common Stock, which were then each ultimately converted into 1/100 of an MVS.

Series A Common Stock

Series A common stock of FLRish (the "Series A Common Stock") was a class of voting common stock that possessed one (1) voting right per share and also will be adjusted in the event or any subdivision or combination of the Series B Common Stock or Series C Common Stock. The total amount of shares of Series A Common Stock authorized was 11,000,000 shares. The Amended Articles provide for an adjustment for of the number of shares of Series B Common Stock issuable upon the conversion of the Series A Common Stock in the even that any Series A options expire or terminate or is otherwise cancelled without being exercised would be reallocated among the Series A Common stockholders pro rata. Additionally, upon an acquisition any paid in capital would be allocated among the Series A Common stockholders, or a substitution of equivalent rights in a new plan would occur.

As part of the RTO Transaction, the issued and outstanding Series A Common Stock was exchanged for 1/100 of an MVS per share of Series A Common Stock.

Series B and Series C Common Stock

Series B common stock of FLRish (the "Series B Common Stock") was a class of common equity that possesses one (1) voting right per share. The total amount of shares of Series B Common Stock authorized was 40,000,000 shares.

Series C common stock of FLRish (the "Series C Common Stock") was a class of non-voting common stock that possesses no voting rights. The total amount of shares of Series C Common Stock authorized was 40,000,000 shares. No shares of Series C Common Stock had been issued.

As part of the RTO Transaction, the issued and outstanding Series B Common Stock and Series C Common Stock was exchanged for 1/100 of an MVS per share of Series B Common Stock or Series C Common Stock.

Series D Common Stock

Series D common stock of FLRish (the "Series D Common Stock") was a class of non-voting common stock that possesses no voting rights. The total amount of shares of Series D Common Stock authorized was 40,000,000 shares.

As part of the RTO Transaction, the issued and outstanding Series D Common Stock was exchanged for one (1) SVS per Series D Common Stock.

17. SHARE CAPITAL (continued)

Share capital transactions for the nine months ended September 30, 2019

On May 17, 2019, FLRish completed a brokered private placement offering (the "Brokered Concurrent Financing") of 2,508,434 subscription receipts (each, a "Subscription Receipt") at a price of CAD $7.00 per Subscription Receipt (the "Concurrent Offering Price") for gross proceeds of $13,358,976 (CAD $17,559,038). In addition, FLRish completed a concurrent non-brokered offering of 298,547 Subscription Receipts for gross proceeds of $1,589,949 (CAD $2,089,829) on the same terms as the Brokered Concurrent Offering (the "Non-Brokered Concurrent Offering"). The aggregate gross proceeds of the Brokered Concurrent Offering and the Non-Brokered Concurrent Offering were approximately USD$14,948,925 (CAD $19,648,867).

Each Subscription Receipt automatically converted into one share of Series D Common Stock (each, a "Series D Share") and one (1) FLRish warrant (each whole warrant, an "Series D Warrant") immediately prior to and in connection with the completion of the RTO Transaction, without payment of any additional consideration and with no further action on the part of the holder. Each Series D Warrant issued on conversion of the Subscription Receipts entitles the holder thereof to purchase one (1) Series D Share at an exercise price of CAD $8.75 per share until May 17, 2021, subject to adjustment in certain circumstances. On closing of the RTO Transaction, each Series D Share and Series D Warrant issued on conversion of the Subscription Receipts was immediately exchanged for equivalent securities of the Resulting Issuer, being one (1) SVS and one (1) warrant to purchase an SVS.

In connection with the Brokered Concurrent Financing, the agents of the Brokered Concurrent Financing (the "Agents") received an aggregate cash fee equal to 7% of the gross proceeds of the Brokered Concurrent Financing and such number of broker warrants (the "SR Broker Warrants") as is equal to 7% of the number of Subscription Receipts issued pursuant to the Brokered Concurrent Financing. Each SR Broker Warrant is exercisable to purchase one (1) Series D Share at the Concurrent Offering Price until May 17, 2021, subject to satisfaction of certain escrow release conditions. Total commissions of $963,545 (CAD $1,266,484) were paid out to Agents.

On May 24, 2019 prior to closing of the RTO Transaction, Lineage declared and paid a stock dividend to the holders of the Lineage common shares as at May 23, 2019 through the issuance of 44,775,010 Series A Special Shares of Lineage, 11,513,533 Series B Special Shares of Lineage and 14,072,120 Series C Special Shares of Lineage. All Series A Special Shares were automatically converted into Lineage common shares upon the completion of the RTO Transaction, without payment of additional consideration or any further action from the holder, which Lineage Common Shares were consolidated and re-designated as a total of 1,070,669 SVS on closing of the RTO Transaction.

On May 30, 2019, the Company paid a stock success fee of CAD $2,925,622 to FMI Capital Advisory Inc. ("FMICAI") which was satisfied by the issuance of 417,949 shares of Series D Common Stock of FLRish immediately prior to the completion of the RTO Transaction, which shares of Series D Common Stock were exchanged for 417,949 SVS of the Company on completion of the RTO Transaction. The SVS were valued at $2,166,967, based on the amount of stock success fee as per disclosed above. The fair value of these SVS was expensed as share-based payments in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

On May 30, 2019, the Company paid for M&A advisory fees to FMICAI by the issuance of 22,236 SVS. The SVS were valued at $85,512, based on the Company's Brokered and Non-Brokered Concurrent Financing price. The fair value of these SVS was expensed as share-based payments in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

17. SHARE CAPITAL (continued)

The following is a reconciliation of the issued and outstanding shares as at September 30, 2019:

	Series A-1 Preferred	Series A-2 Preferred	Common Stock	Series A Common	Series B Common	Series D Common	Lineage Common	Total
Balance, December 31, 2017	**-**	**-**	**2,449,872**	**-**	**-**	**-**	**-**	**2,449,872**
Conversion of Common stock to Series A Common	-	-	(2,449,872)	2,449,872	-	-	-	-
Conversion of Junior and Senior Notes	4,924,701	1,422	-	-	-	-	-	4,926,123
Issuance of Series A-1 Preferred	1,325,299	-	-	-	-	-	-	1,325,299
LMS issuance	-	-	-	-	11,156,627	-	-	11,156,627
Issuance in lieu of Series B Convertible Debentures interest payment	-	-	-	-	80,589	-	-	80,589
Issuance on exercise of options	-	-	-	2,343,750	1,204,819	-	-	3,548,569
Balance, December 31, 2018	**6,250,000**	**1,422**	**-**	**4,793,622**	**12,442,035**	**-**	**-**	**23,487,079**
Issuance in lieu of Series B Convertible Debentures interest payment	-	-	-	-	403,437	-	-	403,437
Issuance of subscription receipts	-	-	-	-	-	2,806,981	-	2,806,981
Issuance as per PMACC purchase option	-	-	-	-	2,846,429	-	-	2,846,429
Issuance on conversion of Series B Debentures	-	-	-	-	8,086,772	-	-	8,086,772
Issuance on RTO Transaction	-	-	-	-	-	-	1,817,109	1,817,109
Isuance on RTO and M&A advisory services	-	-	-	-	-	417,946	22,236	440,182
Conversion on RTO	(6,250,000)	(1,422)			6,251,422			-
Issuance as bonus shares to Lineage shareholders	-	-	-	-	-	-	1,070,669	1,070,669
Issuance on exercise of options	-	-	-	968,253	-	-	-	968,253
Rounding difference	-	-	-	-	-	-	3	3
Balance, May 30, 2019	**-**	**-**	**-**	**5,761,875**	**30,030,095**	**3,224,927**	**2,910,017**	**41,926,914**
Exchange on RTO	**-**	**-**	**-**	**(5,761,875)**	**(30,030,095)**	**(3,224,927)**	**(2,910,017)**	**(41,926,914)**
	-	**-**	**-**	**-**	**-**	**-**	**-**	-
Issuance on exercise of options	-	-	-	-	15,000	-	5,797	20,797
Conversion of MVS to SVS	-	-	-	-	2,406,180	-	-	2,406,180
Balance, September 30, 2019 - SVS	**-**	**-**	**-**	**-**	**12,134,585**	**3,224,927**	**2,915,814**	**18,275,326**
Balance, September 30, 2019 - MVS	**-**	**-**	**-**	**5,761,875**	**17,910,510**	**-**	**-**	**23,672,385**

18. CONTRIBUTED SURPLUS

Stock options

The Company maintains an equity incentive plan (the “Plan”) whereby certain key employees, officers, directors, consultants and advisors may be granted share options, restricted share awards, restricted share units, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

The following table summarizes the options activities for the nine months ended September 30, 2019:

	Number of options outstanding	Weighted average exercise price
	#	**$**
Balance, December 31, 2018	**5,540,462**	**1.07**
Issuance of new options	300,000	0.96
Issuance of options on RTO Transaction	2,033	3.096
Issuance of options on RTO Transaction	64,446	7.740
Issuance of options on RTO Transaction	67,754	5.111
Exercise of stock options	(1,360,925)	0.0545
Expired	(56,210)	0.9588
Balance, end of period	**4,557,560**	

18. CONTRIBUTED SURPLUS (continued)

An aggregate of 4,444,125 options to purchase shares of Series A Common Stock of FLRish ("FLRish Options") were outstanding immediately prior to the closing of the RTO Transaction, particulars of which are set out below:

Date of Grant	Date of Expiry	FLRish Options	Exercise Price (USD)
		#	$
August 1, 2016	August 1, 2026	1,710,375	0.05
July 26, 2017	July 26, 2027	554,375	0.05
October 25, 2017	October 25, 2027	285,000	0.05
December 4, 2017	December 4, 2027	27,375	4.15
April 25, 2018	April 25, 2028	1,454,000	4.15
May 7, 2018	May 7, 2028	15,000	4.15
May 15, 2018	May 15, 2028	8,000	4.15
June 25, 2018	June 25, 2028	10,000	4.15
September 12, 2018	September 12, 2028	50,000	4.15
November 7, 2018	November 7, 2028	10,000	5.31
November 29, 2018	November 29, 2028	20,000	5.31
April 22, 2019	April 22, 2029	35,000	4.15
April 22, 2019	April 22, 2029	265,000	0.05
Total		**4,444,125**	

An aggregate of 769,000 contingent stock grants of shares of FLRish Options were also outstanding immediately prior to the closing of the RTO Transaction, particulars of which are set out below:

Date of Grant	Date of Expiry	FLRish Options	Exercise Price (USD)
		#	$
April 25, 2018	N/A	769,000	N/A
Total		**769,000**	**N/A**

Options grants for the nine months ended September 30, 2019

An aggregate of 5,613,333 (134,232 on a post-consolidation basis) options to purchase Lineage common shares ("Lineage Options") were outstanding immediately prior to the closing of the RTO Transaction (see Note 4), particulars of which are set out below:

Date of Grant	Date of Expiry	Lineage Options (post-Consolidation)	Exercise Price (post-Consolidation)
		#	$
December 12, 2016	December 12, 2021	2,033	CAD $4.18
May 24, 2018	May 24, 2023	63,967	CAD $10.45
August 3, 2018	August 3, 2023	478	CAD $1.45
December 14, 2018	December 14, 2023	67,754	CAD $6.90
Total		**134,232**	**CAD $7.41**

The Lineage Options and FLRish Options outstanding immediately prior to closing of the RTO Transaction became exercisable into SVS of the Company on closing of the RTO Transaction (see Note 4).

18. CONTRIBUTED SURPLUS (continued)

The following table summarizes information of all options outstanding and exercisable as at September 30, 2019:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining life
	#	#	$	Years
December 12, 2021	2,033	2,033	CAD $4.18	2.20
May 24, 2023	63,967	41,549	CAD $10.45	3.65
August 3, 2023	478	319	CAD $10.45	3.85
December 14, 2023	61,957	61,957	CAD $6.90	4.21
July 31 2026	285,000	285,000	$0.05	6.84
August 1, 2026	1,710,375	1,710,375	$0.05	6.84
July 26, 2027	539,375	372,792	$0.05	8.00
December 4, 2027	27,375	15,969	$0.05	8.18
April 25, 2028	1,454,000	1,023,527	$4.15	8.58
May 7, 2028	15,000	15,000	$4.15	8.61
May 15, 2028	8,000	8,000	$4.15	8.63
June 25, 2028	10,000	10,000	$4.15	8.74
September 12, 2028	50,000	25,000	$4.15	8.96
November 7, 2028	10,000	4,167	$5.31	9.11
November 29, 2028	20,000	5,000	$5.31	9.17
April 22, 2029	35,000	35,000	$4.15	9.57
April 22, 2029	265,000	265,000	$0.05	9.57
	4,557,560	**3,880,688**		

19. RESERVE FOR WARRANTS

The following table summarizes the warrant activities for the nine months ended September 30, 2019:

	Number of warrants outstanding	Weighted average exercise price	Weighted average exercise price
	#	$	CAD $
Balance, December 31, 2018	**4,087,518**	**6.275**	**-**
Issuance of Series D Warrants	2,806,981	6,686	CAD $8.75
Issuance of SR Broker Warrants	152,941	5.349	CAD $7.00
Issuance of warrants on RTO Transaction	290,058	10.385	CAD $13.59
Issuance of broker warrants on RTO Transaction	18,604	7.988	CAD $10.45
Issuance of Series B Warrants	213,150	6.450	CAD $8.60
Balance, end of period	**7,569,252**	**6.575**	**-**

Warrants issuance for the nine months ended September 30, 2019

On May 17, 2019, the Company issued 2,806,981 Series D Warrants in connection with the Brokered Concurrent Financing, as disclosed in Note 18. Each Series D Warrant entitles the holder thereof to purchase one common share at an exercise price of CAD $8.75 per share until May 17, 2021. The Company also issued 152,941 Broker Warrants to Agents as compensation to the Brokered Concurrent Financing. Each Broker Warrant is exercisable to purchase one (1) common share at the Concurrent Offering Price of CAD $7.00 until May 17, 2021.

19. RESERVE FOR WARRANTS (continued)

Warrants issuance for the nine months ended September 30, 2019 (continued)

An aggregate of 12,907,664 (308,662 on a post-consolidation basis) warrants to purchase Lineage common shares ("Lineage Warrants") were outstanding immediately prior to the closing of the RTO Transaction (see Note 4), particulars of which are set out below:

Date of Expiry	Lineage Warrants (post-Consolidation)	Exercise Price (post-Consolidation)
	#	$
January 24, 2020	113,348	CAD 13.59
January 24, 2020	9,068	CAD 10.45
February 8, 2020	82,310	CAD 13.59
February 8, 2020	6,017	CAD 10.45
February 14, 2020	72,877	CAD 13.59
February 14, 2020	1,798	CAD 10.45
February 16, 2020	21,522	CAD 13.59
February 16, 2020	1,722	CAD 10.45
Total	**308,662**	**CAD 13.40**

During the nine months ended September 30, 2019, the Company issued 213,150 Series B Warrants on conversion of the Series B Debentures. Each Series B Warrant is exercisable into one (1) Underlying Share at a price of CAD $8.60 per share until October 30, 2020, subject to adjustment and/or acceleration in certain circumstances. The Series B warrants are being accounted for as a derivative liability (see Note 15).

The following table summarizes information of warrants outstanding as at September 30, 2019:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining life
	#	$	Years
January 24, 2020	113,348	CAD 13.59	0.32
January 24, 2020	9,068	CAD 10.45	0.32
February 8, 2020	82,310	CAD 13.59	0.36
February 8, 2020	6,017	CAD 10.45	0.36
February 14, 2020	72,877	CAD 13.59	0.38
February 14, 2020	1,798	CAD 10.45	0.38
February 16, 2020	21,522	CAD 13.59	0.38
February 16, 2020	1,722	CAD 10.45	0.38
October 30, 2020	3,989,124	CAD 8.60	1.08
May 17, 2021	2,806,981	CAD 8.75	1.63
May 17, 2021	152,941	CAD 7.00	1.63
May 31, 2021	311,544	CAD 6.90	1.67
	7,569,252	**CAD 8.75**	**1.29**

20. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

Key management personnel compensation

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

The remuneration of members of key management personnel during the nine months ended September 30, 2019 and 2018 were as follows:

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	$	$
Management compensation	**2,251,354**	912,017
Professional fees	**628,211**	84,180
Directors' fees	**100,000**	-
Stock-based compensation	**440,572**	657,436
	3,420,137	1,653,633

During the nine months ended September 30, 2019, Steve DeAngelo, a former Chief Executive Officer ("CEO") and a former director of the Company, was paid management compensation of $624,360 (2018 – $270,969) for his services, including a bonus of $200,000 paid on the successful completion of the RTO Transaction. As at September 30, 2019, no balance was owed to Mr. DeAngelo (December 31, 2018 – $nil).

During the nine months ended September 30, 2019, Andrew Berman, a former CEO and a former director of the Company, was paid management compensation of $558,166 (2018 – $190,769) for his employment services, including a bonus of $200,000 paid on the successful completion of the RTO Transaction. As at September 30, 2019, no balance was owed to Mr. Berman (December 31, 2018 – $nil)

During the nine months ended September 30, 2019, Derrek Higgins, a former Chief Financial Officer ("CFO") of the Company, was paid management compensation of $412,308 (2018 – $226,539) for his employment services, including separation payments and a bonus of $150,000 paid on the successful completion of the RTO Transaction. As at September 30, 2019, no balance was owed to the former CFO (December 31, 2018 – $nil).

During the nine months ended September 30, 2019, Jack Nichols, the General Counsel and Secretary of the Company, was paid management compensation of $377,169 (2018 – $223,740) for his employment services, including a bonus of $150,000 paid on the successful completion of the RTO Transaction. As at September 30, 2019, no balance was owed to the General Counsel and Secretary (December 31, 2018 – $nil).

During the nine months ended September 30, 2019, Greg Sutton, the Chief Operating Officer of Cultivation and Manufacturing (the "COOCM") of the Company, was paid management compensation of $160,188 (2018 – $nil) for his consulting services. As at September 30, 2019, an amount of $8,938 (December 31, 2018 – $nil) owing to the COOCM was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the nine months ended September 30, 2019, Menna Tesfatsion, the former Chief Operating Officer ("COO") of the Company, was paid management compensation of $119,163 (2018 – $nil) for his consulting services. As at September 30, 2019, no balance was owed to the former COO (December 31, 2018 – $nil).

20. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (continued)

Key management personnel compensation (continued)

Branson Corporate Services Ltd. ("Branson"), where Keith Li, the CFO of the Company is employed, provides for CFO services to Harborside, as well as other accounting and administrative services, which are included in professional fees. From closing of the RTO Transaction up to the period ended September 30, 2019, the Company was charged $45,354 (2018 – $nil) for services provided by Branson. As at September 30, 2019, an amount of $13,055 (December 31, 2018 – $nil) owing to Branson was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

Directors' compensation

On June 1, 2019, the Board had approved the following compensation for directors of the Company:

- Chairman: $75,000 per annum;
- Board member: $36,000 per annum; and
- Chair of committees: an additional $15,000 per annum.

During the nine months ended September 30, 2019, the Company recorded directors' compensation of $100,000 (2018 – $nil) in accordance to the compensation package. As at September 30, 2019, the amount of $100,000 (December 31, 2018 – $nil) was included in accounts payable and accrued liabilities.

Other related party transactions

For the nine months ended September 30, 2019, Aird & Berlis LLP ("Aird & Berlis"), a law firm in which Sherri Altshuler, a director of Harborside, is also a partner, charged $582,857 (2018 – $84,180) for legal services to the Company, which are included in professional fees. As at September 30, 2019, an amount of $273,688 (December 31, 2018 – $nil) owing to Aird & Berlis was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

From closing of the RTO Transaction up to the period ended September 30, 2019, Fogler, Rubinoff LLP ("Foglers"), a law firm in which Adam Szweras, a director of Harborside, is also a partner, charged $46,593 (2018 – $nil) for legal services to the Company, which are included in professional fees. As at September 30, 2019, an amount of $56,194 (December 31, 2018 – $nil) owing to Foglers was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

From closing of the RTO Transaction up to the period ended September 30, 2019, FMICAI, a firm in which Peter Bilodeau, the current Interim CEO and a director of Harborside, is also the President, charged $24,000 (2018 – $nil) for advisory services to the Company, which are included in professional fees. As at September 30, 2019, an amount of $20,855 (December 31, 2018 – $nil) owing to FMICAI was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

On May 30, 2019, the Company paid a stock success fee of CAD $2,925,622 to FMICAI which was satisfied by the issuance of 417,949 shares of Series D Common Stock of FLRish immediately prior to the completion of the RTO Transaction, which shares of Series D Common Stock were exchanged for 417,949 SVS of the Company on completion of the RTO Transaction. The SVS were valued at $2,166,967, based on the amount of stock success fee as per disclosed above, and were recorded as share-based payments in the unaudited condensed interim statements of loss and comprehensive loss.

On May 30, 2019, the Company paid for M&A advisory fees to FMICAI by the issuance of 22,236 SVS. The SVS were valued at $85,512, based on the Company's Concurrent Financing price, and were recorded as share-based payments in the unaudited condensed interim statements of loss and comprehensive loss.

On July 23, 2019, Peter Bilodeau exercised options to purchase 5,797 SVS at an aggregate exercise price of CAD $40,000, such amount having been issued to him as a bonus payable by the Company upon the closing of the RTO Transaction in accordance with a letter agreement dated December 11, 2018.

20. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (continued)

Other related party transactions (continued)

As at September 30, 2019, an amount of $2,973 (December 31, 2018 – $nil) was owed to the Chairman of the Company, for reimbursement of expenses in relation to services provided to the Company, was also included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

Promissory note with related party

On November 16, 2018, FLRish issued a promissory note to Lineage with a principal amount of $1,515,266 bearing interest at a rate of 12% per annum. All principal and accrued interest is payable in a balloon payment due November 19, 2019. Upon completion of the RTO Transaction, the balance had been eliminated on consolidation.

21. SALE LEASEBACK

On July 14, 2017, the Company entered into a sale-leaseback transaction with CFP for a cultivation property located in Salinas, California (the “Farm”). The total sale price for the Farm was $9,080,000. In addition to the property, the sale included all furniture, fixtures, and equipment attached to the property. The gain from the sale is recognized over the life of the lease.

As at September 30, 2019, the deferred gain balance was $263,448 (December 31, 2018 – $292,363).

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

The Company’s classification and measurements of financial assets are summarized below:

	Classification
Cash	Amortized cost
Accounts receivable (excluding tax recoverable)	Amortized cost
Notes receivable	Amortized cost
Deposits	Amortized cost
Investments and advances	Amortized cost / FVTPL
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost
Notes payable	Amortized cost
Derivative liabilities	FVTPL

Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value hierarchy (continued)

As at September 30, 2019, the Company does not have any financial instruments measured at fair value after initial recognition, except for cash included at Level 1, the derivative liabilities which were calculated using Level 2 inputs and investments classified at Level 3 where the fair value was determined based on implied enterprise value of the investee by referring to values of comparable entities, as follows:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash	16,626,218	-	-	16,626,218
Derivative liabilities	-	610,400	-	610,400
	16,626,218	**610,400**	**-**	**17,236,618**

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, accounts receivables and notes receivable, which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash is primarily held with reputable Canadian chartered banks, in trust with the Company's legal counsel, and at the vault at the Harborside Dispensaries. Management believes that the credit risk concentration with respect to financial instruments included in cash, accounts receivable and notes receivable is minimal.

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 on an ongoing basis its capital requirements. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market 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 financing activities.

As at September 30, 2019, the Company had a cash balance of $16,626,218 (December 31, 2018 – $17,000,008) to settle current liabilities of $15,851,209 (December 31, 2018 – $15,338,251).

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

As at September 30, 2019, the Company had the following contractual obligations:

	Less than 1 year	1 to 3 years	3 to 5 years	Total
	$	$	$	$
Accounts payable and accrued liabilities (Note 12)	13,571,650	-	-	13,571,650
Derivative liabilities (Note 14)	107,662	-	-	107,662
Convertible notes payable (Note 14)	246,000	788,000	-	1,034,000
Options derivative liabilities (Note 15)	-	65,888	-	65,888
Warrant derivative liabilities (Note 15)	-	436,878	-	436,878
Lease payable (Note 24)	91,027	107,529	37,093	235,649
	14,016,339	**1,398,295**	**37,093**	**15,451,727**

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

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Foreign exchange risk

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

Interest rate risk

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

Market risk

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

Asset forfeiture risk

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

Banking risk

On September 26, 2019, the 116th US Congress passed H.R. 1595 – Secure and Fair Enforcement ("SAFE") Banking Act of 2019, the first time in history that either chamber has approved a standalone cannabis reform bill. This bill generally prohibits a federal banking regulator from penalizing a depository institution for providing banking services to a legitimate marijuana-related business. Specifically, the bill prohibits a federal banking regulator from (1) terminating or limiting the deposit insurance or share insurance of a depository institution solely because the institution provides financial services to a legitimate marijuana-related business; (2) prohibiting or otherwise discouraging a depository institution from offering financial services to such a business; (3) 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; (4) 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 (5) 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 marijuana-related business.

The Government Accountability Office must report on (1) access to financial services for minority-owned and women-owned marijuana-related businesses; and (2) the effectiveness of suspicious-transaction reports at finding engagement with organized criminal activity in jurisdictions that allow the cultivation, sale, or distribution of marijuana. The bill was received in the Senate on September 26, 2019 and has been referred to the Committee on Banking, Housing, and Urban Affairs.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Banking risk (continued)

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

To date, fewer than 800 banks and credit unions in the US offer financial services to the cannabis industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the US banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the clients and leaves their cash holdings vulnerable.

23. CAPITAL RISK MANAGEMENT

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures 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 debts, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. The Board of Directors of the Company 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 or eliminating exploration expenditures which are of limited strategic value; and
(iii) exploring alternate sources of liquidity.

As at September 30, 2019, the Company's capital consists of share capital, contributed surplus, reserves in warrants, accumulated other comprehensive loss and accumulated deficit, in the amount of $19,571,668 (December 31, 2018 – deficit of $20,728,739).

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 changes to the Company's capital management approach during the nine months ended September 30, 2019 and the year ended December 31, 2018.

24. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Company entered into two (2) lease agreements for the cannabis retail dispensaries located in Portland and Eugene. As at September 30, 2019, the Company is committed to minimum annual lease payments for its two (2) Oregon dispensaries locations as follows:

	Total	Within 1 year	1 to 3 years	3 to 5 years	Beyond 5 years
	$	$	$	$	$
Lease obligations	235,649	91,027	107,529	37,093	-

24. COMMITMENTS AND CONTINGENCIES (continued)

Lease commitments (continued)

The Company also leases its cultivation facilities under an escalating lease commencing in July 2017 and expiring in July 2026. For the nine months ended September 30, 2019, rent expense totaled $681,300 and $681,300, respectively. As at September 30, 2019 and December 31, 2018, the Company recorded a deferred rent liability in the amount of $197,600 and $129,200, respectively to adjust the lease obligation to straight-line amortization. The deferred rent is classified as a long-term liability as the deferral will be reversed in periods beyond 2019.

Future minimum rental payments due from the Company under the lease of its cultivation facilities are as follows:

	Total	Within 1 year	1 to 3 years	3 to 5 years	Beyond 5 years
	$	$	$	$	$
Lease obligations	6,405,000	845,576	1,776,281	1,854,338	1,928,805

Legal claims

The Company may, from time to time, be subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. Contingent liabilities associated with legal proceedings are recorded when a liability is probable, and the contingent liability amount can be reasonably estimated.

In June 2018, an employee asserted claims against the Company alleging six (6) causes of action including:

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

The claims are in the discovery phase and are set for trial in January of 2020. The employee is claiming $1,250,000 in damages. The Company believes that the facts and causes of action as alleged by the employee are without merit, and that the Company also has meritorious defenses to the causes of action alleged by the employee.

San Leandro

On August 6, 2019, the Company and SLWS (the “Parties”) met with legal counsel to mediate a disagreement that had arisen around the Parties’ respective financial advancements to the San Leandro project and to align on project oversight moving forward. At the mediation, the Parties agreed to resolve their differences by converting money advanced since inception of the project into loans, the terms of which remain to be finalized. In addition, the parties agreed to appoint to the board of the joint venture, two (2) directors from each partner and to appoint a fifth director who will be mutually chosen and agreed upon by the Parties.

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.

Subsequent to period end, the Company entered into a separate agreement with Andrew Berman (see Note 25).

24. COMMITMENTS AND CONTINGENCIES (continued)

TSE Agreement

TSE Consulting, LLC ("TSE") provides cultivation management services to the Company as a contractor pursuant to the cultivation consulting agreement executed on February 24, 2018, between TSE and Savature. TSE is paid a base rate of $100,000 per month, which covers employment of onsite staff by TSE as well as performance-based compensation varying from 2.5% to 3.75% of wholesale gross revenue and potential compensation for genetics developed by TSE. The agreement terminates on June 30, 2020.

25. SUBSEQUENT EVENTS

On October 11, 2019, Harborside acquired full ownership of SLWS. In connection with the transaction, the Company entered into a stock purchase agreement and settlement agreement with Grace Executive Services ("GES"), dated October 1, 2019, (the "GES Agreement") wherein the Company acquired GES' 50,000 shares (the "GES Shares") of SLWS' common stock (representing all of GES' shares in SLWS) upon the terms and conditions set forth in the GES Agreement. In consideration for the GES Shares, the Company paid a total sum of $2,000,000, allocated as follows: (i) $1,750,000 for the purchase; and (ii) $250,000 in settlement of all amounts GES claimed it was owed under certain agreements with the Company. In exchange, GES transferred to the Company GES' entire right, title, and interest in and to the GES Shares.

On October 15, 2019, key executives, members of the Board and insiders of the Company, have entered into an additional, extended voluntary lock-up agreement with the Company, in respect of 21,143,469 SVS (on an as-converted basis), representing approximately 50.4% of the total issued and outstanding SVS of the Company at that time, assuming the conversion of all issued and outstanding MVS of the Company, but excluding the conversion of any convertible securities issued and outstanding of the Company. The voluntary lock-up agreement stipulates those investors will not offer to sell, contract to sell or otherwise dispose of any of Harborside securities subject to the lock-up agreement, or enter into any transaction to such effect, directly or indirectly, in addition to other restrictions, on or before December 1, 2019.

On October 21, 2019, the US Tax Court issued a final decision under Tax Court Rule 155 on the income tax deficiency for PMACC, which ruled that PMACC owes an aggregate tax deficiency of approximately $11 million for the fiscal years 2007 through 2012, which is consistent with the Company's one-time provision for its estimated tax obligation for PMACC expensed in its financial results for the three months ended June 30, 2019. The Company has 90 days within which to file an appeal with the US Court of Appeals for the Ninth Circuit. In respect to SJW, the US Tax Court has not yet issued a final ruling on the tax deficiency as of the date of approval of these unaudited condensed interim consolidated financial statements.

On October 25, 2019, pursuant to the terms of a separation agreement dated October 25, 2019 (the "Separation Agreement"), Mr. Berman received a severance package of $310,000, less all applicable withholdings and deductions, to be paid in equal monthly installments beginning on the Company's first regularly scheduled payroll date following the date on which the Separation Agreement becomes irrevocable, with the remaining monthly installments paid consistent with the Company's current payroll practices on regularly scheduled payroll dates thereafter, acceleration of any balance to be paid in a lump sum no later than July 2020. The Company further agreed to pay the cost of COBRA premiums for Mr. Berman and his dependents for 12 months with respect to the Company's paid health, dental and vision coverage. Lastly, the Company agreed to the vesting of all of Mr. Berman's unvested stock options issued through to the last day of employment, and in particular, 534,000 restricted stock options; and 200,000 stock options granted April 25, 2018 in two (2) awards (one for 150,000 stock options and another for 50,000 stock options, both exercisable at a price of $4.15 per share) of which 112,499.96 have already vested.

On October 31, 2019, the Company paid $246,000, including interest of $96,000, as satisfaction of payments due and owing under the Secured Convertible Notes related to the Terpene Acquisition.