



HARBORSIDE INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(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.

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in United States Dollars)

		As at March 31, 2020	As at December 31, 2019
	Notes	\$	\$
<u>Assets</u>			
Current Assets			
Cash and cash equivalents		13,159,238	12,164,927
Accounts receivable, net	4	1,023,653	1,461,370
Inventories	5	3,809,918	2,654,027
Biological assets	6	1,793,001	1,167,125
Prepaid expenses	7	1,213,284	856,692
Other current assets		54,268	10,132
Total Current Assets		21,053,362	18,314,273
Non-Current Assets			
Investments and advances	8	336,349	313,911
Property, plant and equipment	9	21,371,446	21,784,015
Right-of-use assets	11	6,362,440	6,531,986
Deposits		416,165	247,806
Intangible assets	10	53,879,550	53,879,550
Goodwill	10	14,366,055	14,366,055
Total Assets		117,785,367	115,437,596
<u>Liabilities</u>			
Current Liabilities			
Accounts payable and accrued liabilities	12	17,630,272	15,743,606
Convertible notes payable - current		150,000	150,000
Derivative liabilities - current	14	44,597	55,433
Lease payable - current	11	283,127	306,189
Income tax payable	20	5,420,658	3,621,506
Provisions	15	36,981,217	36,500,000
Total Current Liabilities		60,509,871	56,376,734
Non-Current Liabilities			
Notes payable and accrued interest	13	10,339,088	10,204,744
Convertible notes payable		458,775	439,506
Derivative liabilities		-	33,136
Deferred tax liability	20	15,991,686	15,651,198
Lease payable	11	7,624,983	7,597,176
Total Liabilities		94,924,403	90,302,494
<u>Shareholders' Equity (Deficit)</u>			
Share capital	16	94,391,358	94,289,909
Contributed surplus	17	10,073,677	9,967,943
Reserve for warrants	18	1,093,592	1,187,777
Accumulated deficit		(82,697,663)	(80,310,527)
Total Shareholders' Equity (Deficit)		22,860,964	25,135,102
Total Liabilities and Shareholders' Equity (Deficit)		117,785,367	115,437,596

Nature of operations (Note 1)

Commitments and contingencies (Note 26)

Subsequent events (Note 30)

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 condensed interim consolidated financial statements.

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States Dollars, except share amounts)

	Notes	For the three months ended	
		March 31, 2020	March 31, 2019
		\$	\$
Retail revenue, net		10,181,471	8,261,688
Wholesale revenue, net		4,456,775	2,819,081
Services and rental revenue - related party	19	-	441,252
Gross revenue		14,638,246	11,522,021
Excise taxes		(969,417)	(535,608)
Net Revenue		13,668,829	10,986,413
Cost of goods sold - retail		4,961,581	4,460,207
Cost of goods sold - wholesale		3,668,811	2,871,753
Cost of other revenue		-	285,196
		8,630,392	7,617,156
Gross Profit before Biological Assets Adjustments		5,038,437	3,369,257
Change in fair value less costs to sell of biological asset transformation	6	1,041,442	(938,126)
Realized fair value amounts included in inventory sold		579,927	188,252
Gross Profit		6,659,806	2,619,383
Expenses			
General and administrative	24	4,123,830	4,641,732
Professional fees		1,662,743	1,280,999
Share-based compensation	17	105,734	721,926
Depreciation and amortization	9, 11	290,644	231,240
		6,182,951	6,875,897
Income (Loss) before the Undernoted		476,855	(4,256,514)
Interest (expense)		(1,103,130)	(2,735,230)
Other income (expense)		34,776	(6,696)
Fair value change in derivative liabilities and preferred shares	14	43,972	11,696,118
Foreign exchange loss		(408,782)	(272,983)
Total Other Income (Expenses)		(1,433,164)	8,681,209
Net Income (Loss) before Income Taxes		(956,309)	4,424,695
Income tax (expense) recovery	20	(1,430,827)	(844,611)
Net Income (Loss) and Comprehensive Income (Loss)		(2,387,136)	3,580,084
Weighted Average Number of Shares Outstanding			
Basic	25	49,432,795	19,570,057
Diluted		49,432,795	23,734,312
Net Loss per Share			
Basic		\$ (0.05)	\$ 0.18
Diluted		\$ (0.05)	\$ 0.15

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

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the Three Months ended March 31, 2020 and 2019

(Expressed in United States Dollars except share amounts)

	Notes	Share Capital	Contributed Surplus	Warrants	Accumulated Deficit	Total
		\$	\$	\$	\$	\$
Balance, January 1, 2019		9,608,048	6,091,639	632,728	(30,852,412)	(14,519,997)
Exercise of stock options	17	1,250	-	-	-	1,250
Share-based compensation	17	-	721,926	-	-	721,926
Series B common shares issued for PMACC acquisition		13,288,090	-	-	-	13,288,090
Net loss for the quarter		-	-	-	3,580,084	3,580,084
Balance, March 31, 2019		22,897,388	6,813,565	632,728	(27,272,328)	3,071,353
Balance, January 1, 2020		94,289,909	9,967,943	1,187,777	(80,310,527)	25,135,102
Exercise of stock options	17	7,264	-	-	-	7,264
Share-based compensation	17	-	105,734	-	-	105,734
Expiry of warrants issued on reverse takeover	18	94,185	-	(94,185)	-	-
Net loss per the quarter		-	-	-	(2,387,136)	(2,387,136)
Balance, March 31, 2020		94,391,358	10,073,677	1,093,592	(82,697,663)	22,860,964

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

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

For the Three Months ended March 31, 2020 and 2019

(Expressed in United States Dollars except share amounts)

	Notes	For the three months ended	
		March 31, 2020	March 31, 2019
		\$	\$
Operating Activities			
Net income (loss) for the period		(2,387,136)	3,580,084
Adjustments to reconcile net income (loss) to cash flow:			
Share-based compensation	17	105,734	721,926
Depreciation and amortization	9	629,515	407,711
Right-of-use assets amortization	11	169,546	146,440
Change in fair value of biological assets	6	(1,041,442)	938,126
Change in fair value in derivative liabilities and preferred shares	14	(43,972)	(11,696,118)
Foreign exchange gain on convertible debentures		-	372,381
Interest income on Altai advances	8	(22,438)	-
Accretion of interest and debt discount on convertible debentures		-	1,860,014
Foreign exchange loss		(408,782)	-
		(2,998,975)	(3,669,436)
Changes in non-cash working capital:			
Accounts receivable	4	426,608	(1,411,563)
Accounts receivable - related party		-	(156,056)
Inventories	5	(1,155,891)	679,369
Biological assets	6	415,566	(1,373,552)
Prepaid expenses	7	(357,988)	(663,189)
Other current assets		(44,136)	-
Deposits		(168,359)	272,400
Accounts payable and accrued liabilities	12	1,978,831	2,013,439
Accrued interest on notes payable	13	153,613	164,389
Lease payable	11	4,745	(33,259)
Income tax payable	20	1,799,152	930,344
Provisions	15	481,217	543,877
Deferred tax liability	20	340,488	(66,263)
Cash Flows provided by (used in) Operating Activities		874,871	(2,769,500)
Financing Activities			
Proceeds from issuance of convertible debentures		-	1,857,165
Repayment of notes payable		-	(660,000)
Proceeds from exercise of stock options	17	7,264	1,250
Cash Flows provided by Financing Activities		7,264	1,198,415
Investing Activities			
Cash acquired on acquisition of PMACC/SJW		-	2,129,223
Advances to unconsolidated affiliates - SLWS		-	(399,999)
Purchases of property, plant and equipment	9	(216,946)	(1,386,465)
Cash Flows provided by (used in) Investing Activities		(216,946)	342,759
(Decrease) Increase in cash		665,189	(1,228,326)
Effects of foreign exchange on cash and cash equivalents		329,122	-
Cash and cash equivalents, beginning of period		12,164,927	14,762,661
Cash and cash equivalents, end of period		13,159,238	13,534,335
Supplementary Information			
Interest paid		204,296	204,300
Non-Cash Investing and Financing Activities			
Expiration of warrants issued		94,185	-

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

HARBORSIDE INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in United States Dollars except share amounts)

1. Nature of Operations

Harborside Inc. (“Harborside” or the “Company”), through its affiliated entities, owns and operates three retail dispensaries in California, two retail dispensaries in Oregon (the “Terpene Station Dispensaries”) and a cultivation facility in Salinas, California (the “Farm”). In addition, the Company operates a dispensary in Desert Hot Springs, California under a management services agreement. The Company is focused on building and maintaining its position as one of California’s premier vertically integrated cannabis companies.

The Company is licensed to cultivate, manufacture, distribute and sell wholesale and retail cannabis and cannabis products. The Company operates in and/or has ownership interests in California and Oregon, pursuant to the California Medicinal and Adult-Use Cannabis Regulations and the regulations under the Oregon Liquor and Cannabis Commission, respectively.

The Company’s subordinate voting shares (“SVS”) are listed on the Canadian Securities Exchange (the “CSE”) under the trading symbol “HBOR”. The address of the Company’s registered office is located at 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9, Canada, and the Company’s head office is located at 2100 Embarcadero, Suite 202, Oakland, California, 94606, United States (“U.S.”).

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. Concurrent with the closing of the RTO Transaction, Lineage consolidated its common shares on the basis of approximately 41.82 common shares into one new common share, which were then reclassified as SVS (the “Consolidation”). A new class of multiple voting shares (the “MVS”) of the resulting issuer was also created. The RTO Transaction resulted in the former shareholders of FLRish holding a majority of the outstanding share capital and assuming control of Lineage, and Lineage changed its name to Harborside Inc. The interim consolidated financial statements of Harborside are presented as a continuance of FLRish and all comparative figures presented in the consolidated financial statements are those of FLRish. On June 10, 2019, the SVS began trading on the CSE.

2. Basis of Presentation

2.1 Statement of Compliance

The Company’s condensed interim consolidated financial statements for the three months ended March 31, 2020 and 2019 were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed.

2.2 Basis of Measurement

These unaudited condensed interim consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern, using the historical cost basis, except for certain financial instruments and biological assets, which are measured at fair value.

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.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

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2.3 Functional Currency

Unless otherwise indicated, these unaudited restated condensed interim consolidated financial statements are presented in United States dollars (\$) or “USD”), which is deemed the currency of the primary economic environment in which the Company operates (its “functional currency”). All references to “C\$” or “CAD” pertain to Canadian dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate in effect on the dates of the transactions). Foreign exchange gains (losses) resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income (loss), and recorded into earnings upon ultimate disposition.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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2.4 Basis of Consolidation

These condensed interim consolidated financial statements incorporate the accounts of the Company and its subsidiaries, with ownership at March 31, 2020 and December 31, 2019 as follows:

Company Name	Jurisdiction	March 31, 2020	December 31, 2019
Harborside Inc.	Ontario, Canada	100%	100%
Lakeside Minerals Corp.	Ontario, Canada	100%	100%
Unite Capital Corp.	Ontario, Canada	100%	100%
LGC Holdings USA, Inc.	Nevada, US	100%	100%
LGC Real Estate Holdings, LLC	Nevada, US	100%	100%
LGC Real Estate (Colorado), LLC	Nevada, US	100%	100%
LGC Operations, LLC	Nevada, US	100%	100%
Lineage GCL Oregon Corporation	Oregon, US	100%	100%
LGC LOR DIS 1, LLC	Oregon, US	100%	100%
LGC LOR DIS 2, LLC	Oregon, US	100%	100%
Lineage GCL California, LLC	California, US	100%	100%
Lineage Merger Sub Inc.	Delaware, US	100%	100%
FLRish, Inc.	California, US	100%	100%
FLRish IP, LLC	California, US	100%	100%
FLRish Retail, LLC	California, US	100%	100%
FLRish Retail JV, LLC	California, US	100%	100%
FLRish Retail Management & Security Services, LLC	California, US	100%	100%
FLRish Retail Affiliates, LLC	California, US	100%	100%
FLRish Flagship Enterprises, Inc.	California, US	100%	100%
FLRish Farms, Inc.	California, US	100%	100%
Savature Inc.	California, US	100%	100%
SaVaca, LLC	California, US	100%	100%
FFC1, LLC	California, US	100%	100%
FLRish Farms Cultivation 2, LLC	California, US	100%	100%
FLRish Farms Cultivation 7, LLC	California, US	100%	100%
FLRish Farms Cultivation 8, LLC	California, US	100%	100%
Patients Mutual Assistance Collective Corporation	California, US	100%	100%
San Jose Wellness Solutions Corp.	California, US	100%	100%
San Leandro Wellness Solutions Inc.	California, US	100%	100%

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries that it controls after eliminating intercompany balances and transactions.

2.5 Significant Accounting Judgments and Estimates

The preparation of these 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.

Significant judgments, estimates and assumptions that have the most significant effects on the amounts recognized in the unaudited condensed interim consolidated financial statements are described as follows:

HARBORSIDE INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(Expressed in United States Dollars except share amounts)

Going concern

At the end of each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgements of management with respect to assumptions surrounding the short-term and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends. Management believes there is sufficient capital to meet the Company's business obligations for at least the next 12 months, after taking into account expected cash flows and the Company's cash position at period-end.

As indicated in Note 15 to these condensed interim consolidated financial statements, in accordance with IFRIC 23 – *Uncertainty over Income Tax Treatments*, the Company has recognized a provision for particular uncertain tax positions which are related to a business combination. The Company strongly disagrees with the positions taken by the Internal Revenue Service and the findings of the Tax Court and is actively appealing to the Ninth Circuit Court of Appeals. Management has considered, in consultation with outside counsel, that the final amount to be paid is uncertain and the timing of any payments arising from these proceedings or any future proceeding exceeds 12 months from the date that these unaudited restated condensed interim financial statements were authorized to be issued. No payments related to any of the provision amounts are expected to be paid until 2022. The Company believes it will have funds in the future to satisfy any such required cash outflows from its operating cash flow performance and other sources of financing. However, it is possible that the Company will need to obtain additional capital in order to meet these uncertain cash flow requirements and there is no assurance that such capital will be available or available on favorable terms.

Management continues to monitor the Company's operational performance, progress of the tax litigation and appeals process, and its ability to raise funds.

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

Business combination

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

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

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or an asset acquisition can have a significant impact on the entries made at and after acquisition. In

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

Fair value of biological assets and inventories

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

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

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

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

The valuation of work in process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for inventories. The Company must also determine if the cost of any inventories exceeds its net realizable value ("NRV"), such as cases where prices have decreased, or inventories have spoiled or otherwise been damaged. The Company estimates the NRV of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities recorded in the unaudited restated condensed consolidated statements of financial position which 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 is not available, judgment is required to establish fair values. Judgment includes, but is not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

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

Depreciation of property, plant and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of

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recoverable amounts which take into account factors such as economic conditions, market conditions and the useful lives of assets.

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

Incremental borrowing rate for leases under IFRS 16

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

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. The Company determined that its trademark has a finite life and accordingly amortizes it over its estimated useful life of four years. Licenses are deemed to 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.

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, the Company has determined that the cultivation farm is a separate CGU, as is each retail dispensary.

Impairment

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

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Goodwill and indefinite-lived intangible assets

Goodwill and indefinite-lived intangible assets are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill or intangible assets has been impaired. In order to determine if the value of goodwill has been impaired, the CGU or group of CGUs to which goodwill has been allocated must be valued using present value techniques. The Company assesses impairment by comparing the recoverable amount of a long-lived asset, a CGU, or a CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves significant estimates and assumptions. 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.

Income taxes

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

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

In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

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 and changes in these assumptions will affect the fair value estimates.

Compound financial instruments

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

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Provisions

The Company recognizes provisions if there is a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and the obligation can be reliably estimated. The amount recognized as a provision reflects management's best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

3. Summary of Significant Accounting Policies

A summary of the significant accounting policies which have been applied consistently to all periods presented in the accompanying unaudited condensed interim consolidated financial statements are set out below:

3.1 Cash and Cash Equivalents

Cash and cash equivalents are comprised of bank balances held in the bank funds held in trust with the Company's legal counsel (which are available on demand with no restrictions), and cash held at the Company's operating premises in Oregon and California. Cash equivalents include investments and deposits that mature within three months.

3.2 Adoption of New Accounting Policies

The Company adopted the following standards effective January 1, 2020. These changes were made in accordance with the applicable transitional provisions.

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

IAS 1 and IAS 8 were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments were effective for annual reporting periods beginning on or after January 1, 2020. The adoption of this did not have a material impact on the condensed interim consolidated financial statements.

Conceptual Framework

On March 29, 2018, the IASB issued its revised Conceptual Framework for Financial Reporting. The revised Conceptual Framework does not constitute a substantial revision from the previously effective guidance, but does provide additional guidance on topics not previously covered, such as presentation and disclosure. This amendment was effective on January 1, 2020. The Company adopted this amendment in its condensed interim consolidated financial statements for the annual period beginning January 1, 2020. The adoption of the revised Conceptual Framework for Financial Reporting did not have a material impact on the condensed interim consolidated financial statements.

3.3 Recent Accounting Pronouncements

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is

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presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

4. Accounts Receivable

The Company's accounts receivable are comprised of the following at March 31, 2020 and December 31, 2019:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Trade receivables	\$ 862,565	\$ 1,360,066
Sales tax receivables	198,760	138,976
Total	1,061,325	1,499,042
Less allowance for credit loss	(37,672)	(37,672)
Total accounts receivable	<u>\$ 1,023,653</u>	<u>\$ 1,461,370</u>

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for impairment. Financial assets measured at amortized cost are assessed for impairment at the end of each reporting period. Impairment provisions are estimated using the expected credit loss impairment model where any expected future credit losses are provided for, irrespective of whether a loss event has occurred at the reporting date.

The Company provides trade credit to its wholesale customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for wholesale customers is assessed on a quarterly basis and an allowance for credit loss is recorded where required. Credit risk is limited for receivables from retail customers as the majority of retail sales are transacted with cash. All amounts payable to the Company from debit card processors were collected after year-end.

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

Activity in the allowance for credit loss was as follows:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Balance, beginning of period	\$ 37,672	\$ -
Provision for uncollectible receivables	-	37,672
Write-offs, net of recoveries	-	-
Balance, end of period	<u>\$ 37,672</u>	<u>\$ 37,672</u>

The Company's aging of accounts receivable is as follows at March 31, 2020 and December 31, 2019:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Current	\$ 610,946	\$ 775,407
1 – 30 days	249,722	142,006
31– 60 days	13,226	161,279
61 – 90 days	25,513	-
Over 90 days	161,918	420,350
Total	<u>\$ 1,061,325</u>	<u>\$ 1,499,042</u>

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5. Inventories

The Company's inventory includes both purchased items and internally produced inventory. The Company's inventory is comprised of the following items:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Raw Materials	\$ 1,082,632	\$ 510,896
Work-in-Process	705,759	597,132
Finished Goods	2,021,527	1,545,999
Total Inventory	<u>\$ 3,809,918</u>	<u>\$ 2,654,027</u>

During the three months ended March 31, 2020 and 2019, inventory expensed to cost of goods sold was \$8,701,214 and \$7,250,007, respectively. Management determined net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimate costs necessary to make the sale.

During the three months ended March 31, 2019, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of \$92,344, which is recorded as a component of the costs of goods wholesale. No impairment was recorded during the three months ended March 31, 2020.

6. Biological Assets

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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Balance at beginning of period	\$ 1,167,125	\$ -
Acquired as part of business combination (Note 4)	-	615,075
Costs capitalized	2,895,382	9,550,365
Change in fair value less cost to sell due to biological transformation	1,041,442	(4,158,924)
Transferred to inventory upon harvest	(3,310,948)	(4,839,391)
Balance at end of period	<u>\$ 1,793,001</u>	<u>\$ 1,167,125</u>

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

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

Biological assets at March 31, 2020 include \$508,417 of depreciation expense incurred during the period (three months March 31, 2019 - \$322,910).

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

	Assumptions:	As at March 31, 2020		As at March 31, 2019	
		Input	10% change	Input	10% change
i	Weighted average of expected loss of plants until harvest [a]	9%	\$ 18,239	8%	\$ 8,984
ii	Expected yields (dry grams of cannabis per plant) [b]	78 grams	\$ 180,462	54 grams	\$103,368
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at period-end	58%	\$ 119,412	51%	\$103,368
iv	Estimated selling price (per gram) [c]	\$2.12 per gram dried flower \$0.37 per gram dried trim	\$ 290,333	\$1.77 per gram dried flower \$0.30 per gram dried trim	\$227,359
v	After harvest cost to complete and sell (per gram)	\$0.77 per gram dried flower \$0.18 per gram dried trim	\$ 109,871	\$0.94 per gram dried flower \$0.19 per gram dried trim	\$123,991

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

[b] Expected average yields for cannabis plants vary based on the mix of strains and number of plants existing at each reporting date. As of March 31, 2020, it was expected the Company's biological assets would yield 39 grams of dried flower per plant (2019 – 25 grams) and 39 grams of dried trim per plant (2019 – 29 grams).

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

The Company estimates the harvest yields for cannabis at various stages of growth. As of March 31, 2020, it is expected that the Company's biological assets will yield approximately 1,563,136 grams of dry cannabis flower (2019 - 1,998,753) and 1,586,064 grams of dry trim (2019 – 2,282,813) when harvested. The fair value adjustments on biological assets are presented separately on the consolidated statements of loss and comprehensive loss.

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

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7. Prepaid Expenses

As of March 31, 2020 and December 31, 2019, prepaid expenses were comprised of the following:

	March 31, 2020	December 31, 2019
Insurance and rent	\$ 87,673	\$ 206,785
Advances made to suppliers and consultants	137,322	120,625
Excise taxes	501,498	229,617
Payroll and income taxes	34,428	32,339
Taxes and fees	90,278	90,555
Licenses and other	362,085	176,771
Total Prepaid Expenses	\$ 1,213,284	\$ 856,692

8. Investments and Advances

The changes in investments and advances are as follows for the three months ended March 31, 2020:

	Advances	Total
Balance as at December 31, 2019	\$ 313,911	\$ 313,911
Interest accrued	22,438	22,438
Balance as at March 31, 2020	\$ 336,349	\$ 336,349

Altai Partners, LLC

On May 30, 2019, as part of the RTO Transaction, the Company acquired from Lineage advances previously made toward a 100% interest in Altai Partners, LLC (“Altai”), a limited liability company operating out of California with an estimated fair value of \$1,729,463 (which included accrued interest of \$94,463). These advances were made pursuant to a binding letter of intent that was entered into by Lineage on March 28, 2018 in relation to the acquisition (the “LUX Acquisition”) of Lucrum Enterprises Inc. d/b/a Lux Cannabis Dispensary (“LUX”). Altai had an agreement in place, dated March 15, 2018, to acquire a 45% interest in LUX, a licensed dispensary operating in San Jose.

Further to the above agreement on March 28, 2018, Altai entered into an additional agreement to acquire the remaining 55% ownership interest in LUX. Accordingly, the Company would acquire an indirect 100% ownership interest in LUX through its purchase of a 100% interest in Altai. The purchase price for the LUX Acquisition is \$5,400,000, payable on or prior to closing, comprised of: \$1,200,000 payable in cash, \$750,000 in a promissory note and \$3,450,000 payable by the issuance of share capital of the Company.

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

- a. \$750,000 will be lent to Altai under promissory notes bearing 12% annual interest. The promissory notes will become loans to subsidiary after completion of the LUX Acquisition; and
- b. 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 cash payments to LUX shareholders of \$300,000 each.

As at December 31, 2019, the Company had advanced total funds of \$1,800,000 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 LUX Acquisition. Should the LUX Acquisition not ultimately close, the advances will be repaid to the Company.

Though the Company hopes to close the LUX Acquisition, there is currently uncertainty with respect to the ultimate outcome and timing. Given the uncertainty, management had recorded an expected credit loss of \$1,446,184 as at December 31, 2019, to an amortized cost of \$313,911.

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For the three months ended March 31, 2020, the Company accrued interest of \$22,438. As at March 31, 2020, the amortized cost is \$336,349.

9. Property, Plant and Equipment

Changes in the Company's property, plant and equipment consisted of the following for the three months ended March 31, 2020 and the year ended December 31, 2019:

	Land	Agricultural buildings	Agricultural equipment	CIP	Furniture and fixtures	Vehicles	Office, computer and security equipment	Leasehold improvements	TOTAL
At Cost									
As at December 31, 2018	\$ 3,404,572	\$ 5,150,611	\$ 3,612,756	\$ 6,022,308	\$ 40,654	\$ -	\$ 725,574	\$ 2,572	\$ 18,959,047
Additions	-	3,749,792	2,261,167	378,248	33,376	-	112,864	2,537,675	9,073,122
Business acquisition	-	-	-	1,803,731	-	29,530	1,128,405	-	2,961,666
Reclass on completed phase of construction	-	-	-	(5,644,335)	-	-	-	-	(5,644,335)
As at December 31, 2019	3,404,572	8,900,403	5,873,923	2,559,952	74,030	29,530	1,966,843	2,540,247	25,349,500
Additions	-	55,773	32,453	-	28,393	-	12,967	87,360	216,946
Reclass on completed phase of construction	-	-	-	-	-	-	-	-	-
As at March 31, 2020	\$ 3,404,572	\$ 8,956,176	\$ 5,906,376	\$ 2,559,952	\$ 102,423	\$ 29,530	\$ 1,979,810	\$ 2,627,607	\$ 25,566,446
Accumulated depreciation									
As at December 31, 2018	-	689,569	745,925	-	13,114	-	273,908	200	1,722,716
Depreciation expense	-	523,915	864,332	-	6,109	11,765	283,754	152,894	1,842,769
As at December 31, 2019	-	1,213,484	1,610,257	-	19,223	11,765	557,662	153,094	3,565,485
Depreciation expense	-	183,388	295,954	-	3,505	1,838	105,424	39,406	629,515
As at March 31, 2020	\$ -	\$ 1,396,872	\$ 1,906,211	\$ -	\$ 22,728	\$ 13,603	\$ 663,086	\$ 192,500	\$ 4,195,000
Net Book Value									
As at December 31, 2019	3,404,572	7,686,919	4,263,666	2,559,952	54,807	17,765	1,409,181	2,387,153	21,784,015
As at March 31, 2020	\$ 3,404,572	\$ 7,559,304	\$ 4,000,165	\$ 2,559,952	\$ 79,695	\$ 15,927	\$ 1,316,724	\$ 2,435,107	\$ 21,371,446

Depreciation expense of \$629,515 and \$407,711 was recorded for the three months ended March 31, 2020 and 2019, respectively, of which \$508,417 and \$322,910 was included in cost of goods sold for the three months ended March 31, 2020 and 2019, respectively.

10. Intangible Assets and Goodwill

A reconciliation of the beginning and ending balances of intangible assets and goodwill for the three months ended March 31, 2020 is as follows:

At Cost	Intangible Assets			Goodwill
	Licenses	Trademark	Total	
Balance as of December 31, 2018	\$ -	\$ -	\$ -	\$ -
Additions:				
Acquisition of PMACC and SJW	51,800,000	-	51,800,000	37,909,991
Acquisition of Lineage (RTO)	239,970	113,899	353,869	13,100,639
Acquisition of SLWS	2,005,137	-	2,005,137	-
Total additions	54,045,107	113,899	54,159,006	51,010,630
Impairment	(212,223)	(67,233)	(279,456)	(36,644,575)
Balance as of December 31, 2019	\$ 53,832,884	\$ 46,666	\$ 53,879,550	\$ 14,366,055
Additions / Disposal	-	-	-	-
Impairment	-	-	-	-
Balance as of March 31, 2020	\$ 53,832,884	\$ 46,666	\$ 53,879,550	\$ 14,366,055

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11. Right-of-Use Assets and Lease Liabilities

Right of use Assets

The Company leases various buildings and as part of its normal course of business. The Company adopted IFRS 16 Leases, which requires a lessee to recognize a right-of-use asset (representing its right to use the underlying leased asset) and a lease liability (representing its obligation to make lease payments). IFRS 16 is required for all leases with a term of more than 12 months, unless the underlying asset is of low value. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Further information about leases for which the Company is a lessee is presented below:

	Right of Use Asset - Buildings
Cost	
Balance at December 31, 2019	\$ 7,172,185
Additions	-
At March 31, 2020	\$ 7,172,185
Accumulated amortization	
Balance at December 31, 2019	\$ 640,199
Amortization Expense	169,546
At March 31, 2020	\$ 809,745
Net book value	
At December 31, 2019	6,531,986
At March 31, 2020	\$ 6,362,440

Lease Liabilities

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 7, 2019 (for the leases acquired in the acquisitions by the Company of Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness ("SJW") as of such date), the weighted average of which is 15.00%.

The following is a summary of the activity in the Company's lease liability for the three months ended March 31, 2020:

	Lease Liability
Balance at December 31, 2019	\$ 7,903,365
Lease payments	(287,168)
Interest expense	291,913
Ending lease liability	\$ 7,908,110
Less: current portion	(283,127)
At March 31, 2020	\$ 7,624,983

The Company recognized no material expenses related to short-term leases and leases of low-value assets for the three months ended March 31, 2020.

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12. Accounts Payable and Accrued Liabilities

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

The Company's accounts payable and accrued liabilities consist of the following at March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
Accounts payable	\$ 9,813,021	\$ 7,481,697
Accrued liabilities	5,972,130	6,381,087
Accrued payroll	1,845,121	1,880,822
Total accounts payable and accrued liabilities	\$ 17,630,272	\$ 15,743,606

13. Notes Payable

As of March 31, 2020, notes payable consisted of the following:

	March 31, 2020	December 31, 2019
Financing arrangement	(a) \$ 10,339,088	\$ 10,204,744
Net amount	10,339,088	10,204,744
Less notes payable, current portion	-	-
Notes payable, net of current portion	\$ 10,339,088	\$ 10,204,744

(a) Financing Arrangement

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

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

The Lease grants the Company a call option to purchase the property under the terms set forth in the agreement. Beginning on the 37th month after the commencement of the Lease, and through the term of the Lease and any extension period, the Company has the ability to exercise its call option for two months, at every six-month interval. In the event that the Company desires to purchase the property prior to the 37th month after the commencement of the Lease, the Company may purchase the property subject to a make whole provision which guarantees the Landlord a 15% internal rate of return for the first three years.

The Lease also grants CFP a put option to sell the Farm under the terms set forth in the agreement. Beginning on the 85th month after commencement of the Lease, CFP has the option for two months, at every 12-month interval, to require that the Company purchase the Farm from CFP. The Company did not account for the financing transaction as a sale in July 2017, in consideration of the call and put options included in the lease agreement. Further, the Company has continuing involvement for improving the Farm through construction initiatives for additional cultivation greenhouse space. Therefore, the Company's risk of loss had not transferred at the time of sale. The transaction was recorded as a financing arrangement for the approximately \$9.1 million initially received as part of the agreement. Payments are applied over the term the Lease, with the Company exercising their approximately \$14.5 million purchase option at the end of the Lease term. The Lease grants CFP a put option to sell the property under the terms set forth in the agreement. Beginning on the 85th month after commencement of the Lease, CFP shall have the option for two months, at every 12-month interval, to require that the Company purchase the property from CFP. As a result, the transaction has been accounted for as a financing arrangement.

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The effective interest rate after consideration of the Company's purchase option is 13.3%. The minimum payments included in the Lease are applied to interest over the course of the Lease with a final payment made at the end for the purchase of the Farm. Interest is accreted using the effective interest rate method during the Lease term based on the \$9,080,000 loan and a purchase at the end of the Lease term. The balance includes \$9,080,000 principal and accrued interest of \$1,259,088 at March 31, 2020 and \$1,124,744 as of December 31, 2019.

A reconciliation of the beginning and ending balances of notes payable for the three months ended March 31, 2020 and the year ended December 31, 2019 is as follows:

	March 31, 2020	December 31, 2019
Balance at the beginning of the period	\$ 10,204,744	\$ 11,489,474
Cash payments	-	(1,780,000)
Interest accruals	338,640	1,312,470
Interest cash payments	(204,296)	(817,200)
Balance at end of period	\$ 10,339,088	\$ 10,204,744

14. Derivative Liabilities

The following table provides a reconciliation of the beginning and ending balance of derivative liabilities and the change in fair value of derivative liabilities as at March 31, 2020 and December 31, 2019:

	Series B Debentures Conversion Feature (a)	Series B Warrants Derivative Liability (a)	Series D Warrant Liability (b)	Secured Convertible Notes Conversion Feature (c)	Total
Balance as of December 31, 2018	\$ 9,142,301	\$ 5,904,327	\$ -	\$ -	\$ 15,046,628
Fair value of derivative liabilities on issuance	147,305	93,996	3,855,739	-	4,097,040
Fair value of derivative liability on acquisition Note 4	-	-	-	126,358	126,358
Change in fair value of derivative liabilities	(5,343,144)	(5,994,217)	(3,826,709)	(70,925)	(15,234,995)
Conversion to common shares Note 18	(3,946,462)	-	-	-	(3,946,462)
Balance as of December 31, 2019	\$ -	\$ 4,106	\$ 29,030	\$ 55,433	\$ 88,569
Change in fair value of derivative liabilities	-	9,137	(2,724)	(50,385)	(43,972)
Balance as of March 31, 2020	\$ -	\$ 13,243	\$ 26,306	\$ 5,048	\$ 44,597

(a) Series B Debenture Unit Derivative Liabilities

In February 2019, the Company issued series B debenture units (the "Series B Debenture Units") that also included certain conversion features that failed equity classification. Each Series B Debenture Unit was comprised of CAD \$1,000 principal amount of 12.0% unsecured convertible debentures (the "Series B Debentures") and 87 share purchase warrants (the "Series B Warrants"). The Monte Carlo Simulation option-pricing model was used to estimate the fair value of the derivative liabilities (conversion feature and warrants) upon the February 2019 issuance and included in the table above. See Note 16 in the previously filed annual 2019 financial statements for further information.

The Company revalued the conversion feature on the RTO Transaction date, immediately prior to conversion and the remaining derivative liability of \$3,946,462 was transferred to equity on conversion of the Series B Debenture Units.

The Series B Warrants were valued at issuance and at each reporting period and remain outstanding as at March 31, 2020.

The Company used the Monte Carlo Simulation option-pricing model to estimate the fair value of the derivative liabilities at each reporting date. The Monte Carlo model uses certain Level 2 and Level 3 inputs in its valuation model. The key Level 2 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the SVS, (ii) the risk-free interest rate, and (iii) the expected life of the instruments. The risk-free interest rate is based on data from the Federal Reserve Statistical Release and extrapolated for interim periods. The expected lives are based on the anticipated date of public listing. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable and that have trading and volatility history prior to the

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Company going public. Subsequent to the RTO Transaction, volatility was calculated using the stock price returns from the same pool of comparable public companies, as there was insufficient trading history in the Company's shares. The Level 3 inputs relate to the probability of conversion.

The following assumptions were used to value the Series B Warrant derivative liabilities during the period ended March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
Risk free interest rate	0.30%	1.60%
Exercise price - US \$	6.09	6.62
Share price - US \$	0.34	0.52
Expected volatility	153%	95.30%
Expected remaining life	0.58 years	0.83 years
Fair value	\$ 13,243	\$ 4,106

These warrants are outstanding at March 31, 2020.

(b) Series D Offerings Warrant Liability

On May 17, 2019, the Company completed a private placement offering of 2,806,981 subscription receipts (each, a "Subscription Receipt"), at a price of CAD \$7.00 per Subscription Receipt (the "Brokered Concurrent Offering"). Each Subscription Receipt automatically converted into one share of FLRish Series D Common Stock (each, an "SR Share") and one FLRish warrant (each, a "Series D Warrant") immediately prior to and in connection with the completion of the RTO Transaction. Each Series D Warrant issued on conversion of the Subscription Receipts, entitled the holder thereof to purchase one SR Share, at an exercise price of CAD \$8.75 per share until May 17, 2021, subject to adjustment in certain circumstances. See Note 16 in the previously filed annual 2019 financial statements for further information.

On closing of the RTO Transaction, each SR Share and Series D Warrant issued on conversion of the Subscription Receipts was immediately exchanged for equivalent securities of Harborside, being one SVS and one warrant to purchase an SVS, respectively. The Series D Warrants were valued at issuance and at each reporting period and remain outstanding as at March 31, 2020.

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

The following assumptions were used to value the Series D Warrants liabilities during the period ended March 31, 2020 and December 31, 2019:

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	March 31, 2020	December 31, 2019
Risk free interest rate	0.33%	1.60%
Exercise price - US \$	6.20	6.74
Share price - US \$	0.34	0.52
Expected volatility	130%	99.80%
Expected remaining life	1.06 year	1.38 year
Fair value	\$ 26,306	\$ 29,030

These warrants are outstanding at March 31, 2020.

(c) Secured Convertible Note Conversion Feature

As part of the RTO Transaction, the Company assumed certain secured convertible notes issued in connection with its previous acquisition of the Terpene Station Dispensaries. The fair value of the conversion feature was determined using a Black-Scholes option pricing model with the following assumptions as at March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
Share price - CAD \$	0.49	0.67
Conversion price - CAD \$	14.64	14.64
Expected remaining life	0.41 - 1.41 years	0.66 – 1.66 years
Expected volatility (1)	100%	114.96% – 133.88%
Risk-free interest rate	0.29% - 0.42%	1.43% – 1.47%

⁽¹⁾ Expected volatility is based on historical volatility of comparable companies.

See Note 16 in the previously filed annual 2019 financial statements for further information. This note is outstanding at March 31, 2020.

15. Provisions

IRC Section 280E

Certain subsidiaries of the Company operate in the cannabis industry and are subject to Internal Revenue Code (“IRC”) Section 280E, which prohibits businesses engaged in the trafficking of controlled substances (including cannabis as specified in Schedule I of the Controlled Substances Act) from deducting normal business expenses associated with the sale of cannabis. This can result in permanent tax differences resulting from ordinary and necessary business expenses which are deemed non-allowable under IRC Section 280E. Many of the central issues relating to the interpretation of Section 280E remain unsettled, and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E). IFRIC 23 - *Uncertainty over Income Tax Treatments* provides guidance that adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the positions taken by the Internal Revenue Service and the findings of the Tax Court, the Company has determined that a reserve for an uncertain tax position should be recorded for all years subject to statutory review. Though the Company is actively appealing the Tax Court decision that was issued on November 29, 2018, an uncertain tax position has been recorded based on the unknown outcome of the case. As of March 31, 2020, the reserve approximately totaled \$37.0 million (December 31, 2019 – \$36.5 million), a sum which includes the separate tax proceedings described below. The Company does not currently expect any of the cases described below, any resultant potential liabilities, or any possible payments resulting from the cases to be resolved within 12 months of the issuance date of these financial statements.

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PMACC

PMACC is currently involved in two (2) separate tax proceedings. The first, *PMACC v. Commissioner*, is an appeal to the United States Court of Appeals for the Ninth Circuit of an adverse Tax Court decision that was issued on November 29, 2018. In that decision, the Tax Court disallowed PMACC's allocation of certain items of expense to cost of goods sold, holding that they were instead deductions barred by IRC Section 280E. At issue are PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012. The court held that the expenses were ordinary and substantiated business expenses but, because PMACC's business consists of trafficking in a Schedule I controlled substance, the expenses must be disallowed. On October 21, 2019, after a review process under Rule 155, the Tax Court determined that PMACC's total liability was \$11,013,237 plus accrued interest. In its ruling, the Tax Court rejected the assertion of penalties by the Internal Revenue Service ("IRS"), finding that the unsettled state of the law and the fact that PMACC acted reasonably and in good faith, meant that penalties under IRC 6661(a) would be inappropriate. Accordingly, management has not included penalties in the estimated provision at period-end.

In December 2019, PMACC appealed the Tax Court decision to the United States Court of Appeals for the Ninth Circuit, which is expected to hear the case in fourth quarter 2021.

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

San Jose Wellness

SJW has two (2) pending Tax Court cases. The first case involves the 2010, 2011, and 2012 tax years, and in this case, the IRS has asserted a tax deficiency of \$2,120,215. The second case involves the 2014 and 2015 tax years. The IRS has asserted in the second case that SJW owes an additional \$2,259,528 in tax and penalties. Both of these proceedings involve substantially the same issues as the PMACC cases. The first SJW case has been stayed before the U.S. Tax Court, pending the outcome of the above-described tax cases involving PMACC. The second SJW case is proceeding without trial and briefs are being submitted. The Company expects that ultimately the SJW cases will also be controlled by the outcome of the PMACC Ninth Circuit appeal proceedings.

The Company, after consulting with outside counsel, believes that only its subsidiaries that are either cannabis license holders or are otherwise plant-touching are subject to IRC Section 280E. However, there is a general risk that the IRS could attempt to apply Section 280E to other subsidiaries of the Company, in which instance the tax liability of the Company could be greater. While the Company would contest such efforts, the outcome of any such litigation is unpredictable.

16. Share Capital

During the year 2019 there was a reorganization of the Company through the RTO Transaction. See Note 18 in the previously filed annual 2019 financial statements for further information.

The following is a reconciliation of the issued and outstanding shares as at March 31, 2020:

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	Series A-1 Preferred	Series A-2 Preferred	Common Stock	Series A Common	Series B Common	Series D Common	Subordinate Voting Shares (SVS)	Multiple Voting Shares (MVS)
Balance, December 31, 2018	6,250,000	1,422	-	4,446,747	11,243,264	-	-	-
Issuance in lieu of Series B Convertible Debentures interest payment	-	-	-	-	399,153	-	-	-
Issuance as per PMACC purchase option	-	-	-	-	4,051,248	-	-	-
Issuance of subscription receipts	-	-	-	-	-	2,806,981	-	-
Issuance on conversion of Series B Debentures	-	-	-	-	8,085,008	-	-	-
Issuance on exercise of options	-	-	-	1,315,128	-	-	-	-
Share conversion immediately preceding RTO	(6,250,000)	(1,422)	-	-	6,251,422	-	-	-
Conversion to SVS and MVS on RTO	-	-	-	(5,761,875)	(30,030,095)	(2,806,981)	6,340,202	322,587
Issuance on RTO Transaction	-	-	-	-	-	-	1,817,110	-
Issuance on RTO and M&A advisory services	-	-	-	-	-	-	440,183	-
Issuance as bonus shares to Lineage shareholders	-	-	-	-	-	-	1,070,670	-
Issuance on exercise of options post-RTO	-	-	-	-	-	-	170,797	-
Conversion of MVS to SVS	-	-	-	-	-	-	9,181,542	(91,815)
Balance, December 31, 2019	-	-	-	-	-	-	19,020,504	230,772
Conversion of MVS to SVS	-	-	-	-	-	-	782,057	(7,820)
Issuance on exercise of options	-	-	-	-	-	-	145,277	-
Balance, March 31, 2020	-	-	-	-	-	-	19,947,838	222,952

17. Contributed Surplus

The Company maintains an equity incentive plan (the “Plan”) whereby certain key employees, officers, directors, consultants and advisors may be granted stock options, restricted share awards (“RSAs”), restricted share units, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company. See Note 19 in the previously filed annual 2019 financial statements for further information.

The following table summarizes the stock option activities for the period ended March 31, 2020 and the year ended December 31, 2019:

	Number of options outstanding	Weighted average exercise price
	#	\$
Balance, December 31, 2018	5,212,944	1.343
Issuance of replacement options*	625,000	0.050
Exercise of stock options	(1,480,128)	0.055
Acquired options on RTO	38,044	6.74
Expired	(89,959)	0.850
Balance, December 31, 2019	4,305,901	1.656
Exercise of stock options	(145,277)	0.050
Balance, March 31, 2020	4,160,624	1.712

*The options were originally granted in 2016 and this date represents the re-issuance for accounting purposes of the previously granted options. See Note 19 in the previously filed annual 2019 financial statements for further information.

During the three months ended March 31, 2020, the Company recorded aggregate share-based compensation expense of \$101,611, for all stock options vesting during the period. During the three months ended March 31, 2019, the Company recorded aggregate share-based compensation expense of \$416,021, for all stock options vesting during the period. During the three months ended March 31, 2020 and 2019, the Company received cash consideration of \$7,264 and \$1,250, respectively, for the exercise of 145,277 and 25,000 vested stock options, respectively.

The Company did not grant any new options during the quarter-ended March 31, 2020 or the year-ended December 31, 2019. The Company did acquire 38,044 outstanding options as part of the RTO Transaction during 2019. See

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Note 19 in the previously filed annual 2019 financial statements for further information.

As of March 31, 2020, the options outstanding and exercisable and with the corresponding exercise price and weighted average remaining life is as follows:

Expiry date	Date of Grant	Number of options outstanding	Number of options exercisable	Exercise price (CAD)	Exercise price (USD)	Weighted average remaining life
July 5, 2022	July 5, 2019*	625,000	625,000	CAD 0.07	\$ 0.055	2.26
May 24, 2023	May 24, 2018	19,728	13,152	CAD 10.45	\$ 8.062	3.15
December 14, 2023	December 14, 2018	18,316	18,316	CAD 6.90	\$ 5.323	3.71
August 1, 2026	August 1, 2016	1,313,207	1,313,207	CAD 0.06	\$ 0.050	6.34
July 26, 2027	July 26, 2017	297,498	255,310	CAD 0.06	\$ 0.050	7.32
December 4, 2027	December 4, 2017	27,375	20,531	CAD 5.38	\$ 4.150	7.68
April 25, 2028	April 25, 2018	1,446,500	1,257,555	CAD 5.38	\$ 4.150	8.07
May 7, 2028	May 7, 2018	15,000	15,000	CAD 5.38	\$ 4.150	8.10
May 15, 2028	May 15, 2018	43,000	43,000	CAD 5.38	\$ 4.150	8.13
May 15, 2028	May 15, 2018	265,000	265,000	CAD 0.06	\$ 0.050	8.13
June 25, 2028	June 25, 2018	10,000	10,000	CAD 5.38	\$ 4.150	8.24
September 12, 2028	September 12, 2018	50,000	33,333	CAD 5.38	\$ 4.150	8.45
November 7, 2028	November 7, 2018	10,000	8,542	CAD 6.88	\$ 5.310	8.60
November 29, 2028	November 29, 2018	20,000	15,417	CAD 5.38	\$ 4.150	8.66
Totals		4,160,624	3,893,363			6.57

*The options were originally granted in 2016 and this date represents the re-issuance for accounting purposes of the previously granted options. See Note 19 in the previously filed annual 2019 financial statements for further information.

The weighted average remaining contractual life of outstanding options as of March 31, 2020 is 6.57 years.

Restricted Share Awards

No RSAs were granted during the quarter-ended March 31, 2020.

During the three months ended March 31, 2020, the Company recorded share-based compensation of \$4,123 in relation to the vesting of the RSAs issued in prior periods. During the three months ended March 31, 2019, the Company recorded share-based compensation of \$305,905 in relation to the vesting of the RSAs issued in prior periods.

18. Reserve for Warrants

The activity for warrants outstanding for the nine months ended March 31, 2020 and the year ended December 31, 2019, is summarized as follows:

	Number of warrants outstanding	Weighted average exercise price	Weighted average exercise price
	#	CAD \$	\$
Balance, December 31, 2018	4,087,518	8.47	6.27
Issuance of Series D warrants	2,806,981	8.75	6.69
Issuance of SR Broker warrants	160,775	7.00	5.35
Issuance of warrants on RTO Transaction	290,058	13.59	10.39
Issuance of broker warrants on RTO Transaction	18,604	10.45	7.99
Issuance of Series B warrants	213,150	8.60	6.45
Balance, December 31, 2019	7,577,086	8.75	6.57
Expiry of RTO warrants	(308,662)	13.40	10.24
Balance, March 31, 2020	7,268,424	8.55	6.42

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During 2019, the Company issued the following warrants:

- 2,806,981 Series D Warrants. Each Series D Warrant entitles the holder thereof to purchase one SVS at an exercise price of C\$8.75 per SVS until May 17, 2021.
- 160,775 broker warrants issued to agents as compensation to the Brokered Concurrent Offering. Each broker warrant is exercisable to purchase one (1) SR Share and one (1) Series D Warrant at the price of C\$7.00 until May 17, 2021.
- 213,150 Series B Warrants on conversion of the Series B Debentures. Each Series B Warrant is exercisable at a price of C\$8.60 into 1/100 of an MVS until October 30, 2020, subject to adjustment and/or acceleration in certain circumstances.

See Note 15 and 16 in the previously filed annual 2019 financial statements for further information. The estimated fair value of these warrants is disclosed in Note 14.

Additionally, an aggregate of 12,907,664 warrants of Lineage (the “Lineage Warrants”) (308,662 warrants on a post-Consolidation basis) to purchase common shares of Lineage were outstanding immediately prior to the closing of the RTO Transaction. The Lineage Warrants expired unexercised during the period ended March 31, 2020.

The following table summarizes information of warrants outstanding as at March 31, 2020:

Date of expiry	Number of warrants outstanding	Exercise price	Exercise price	Weighted
				average remaining life
	#	CAD	\$	Years
October 30, 2020	3,989,124	8.60	6.63	0.66
May 17, 2021	2,806,981	8.75	6.75	1.27
May 17, 2021	160,775	7.00	5.40	1.27
May 31, 2021	311,544	6.90	5.32	1.31
Total	7,268,424	8.55	6.60	0.94

19. Related Party Transactions and Key Management Compensation

(a) Key Management Compensation

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

	March 31, 2020	March 31, 2019
Short-Term Employee Benefits, including Salaries and Director Fees	\$ 565,133	\$ 620,487
Share-Based Compensation – Directors & Executives	102,331	526,691
Total	\$ 667,464	\$ 1,147,178

As at March 31, 2020, a balance of \$30,299 was owed to Peter Bilodeau, the Chairman of the Board and the Interim Chief Executive Office (“CEO”) (December 31, 2019 - \$1,055). This amount was due to Emtra Business Services Inc., a company controlled by Mr. Bilodeau through which Mr. Bilodeau is compensated for his work as the Interim CEO of the Company.

As at March 31, 2020, \$13,243 was owed to Tom DiGiovanni, the Chief Financial Officer (“CFO”) (December 31, 2019 - \$30,712). This amount was due to Newhouse Development LLC, a company controlled by Mr. DiGiovanni through which Mr. DiGiovanni is compensated for his work in acting as the CFO of the Company.

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(b) Related Parties

Foundation Group of Companies

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

On February 28, 2018, FMICAI and FLRish executed a consulting agreement whereby FMICAI would provide merger and capital raising consulting services to FLRish (the “FMICAI Consulting Agreement”). Under the FMICAI Consulting Agreement, FMICAI was compensated by means of a monthly fee in the amount of CAD \$15,000, which terminated upon completion of the RTO Transaction, and a success fee ranging from 2 to 4% of the transaction value for either an M&A transaction or an acquisition. For the three months ended March 31, 2019, Harborside paid FMICAI \$33,849 (C\$45,000) in fees related to the FMICAI Consulting Agreement (March 31, 2020 - \$nil). These amounts are recorded as professional fees in the condensed interim consolidated statements of loss and comprehensive loss.

On December 3, 2018, FMICAI and FLRish entered into an advisory agreement (the “FMICAI Advisory Agreement”), whereby FMICAI would provide consulting services to Harborside in addition to those contemplated under the FMICAI Consulting Agreement. In consideration of the additional services provided by FMICAI pursuant to the FMICAI Advisory Agreement, FMICAI is entitled to cash fees equal to an aggregate of \$732,970 (C\$1,000,000) and 143,241 advisory warrants. Each advisory warrant is exercisable at an exercise price of \$4.15 (C\$6.90) into 1/100 of an MVS until the earlier of 60 months from December 3, 2018 or 24 months from the completion of the RTO Transaction. The Company paid \$281,222 (C\$370,000) and \$477,309 (C\$630,000) during the three months ended March 31, 2019, related to the FMICAI Advisory Agreement (March 31, 2020 - \$nil). These amounts are recorded as professional fees in the condensed interim consolidated statements of loss and comprehensive loss.

There were no outstanding accounts payable or accrued liabilities as at March 31, 2020 (December 31, 2019 - \$nil) between the Company and FMI or FMICAI.

Quinsam Capital Corporation

In October 2018, Quinsam Capital Corporation (“Quinsam”), a merchant bank in Canada where Peter Bilodeau (the Interim CEO of the Company) was the President and a director, and where Keith Li (former CFO of the Company) is also the CFO, had subscribed for 250 Series B Debentures Units for \$190,350 (C\$250,000). In May 2019, Quinsam also subscribed for 30,000 Subscription Receipts for \$155,925 (C\$210,000) as part of the Brokered Concurrent Offering. Quinsam received 378,233 SVS through conversion of units subscribed from the certain private placements of the Company in 2018, and the Brokered Concurrent Offering, and 56,485 SVS through its prior subscription of Lineage securities, in connection with the RTO Transaction.

Nutritional High International Inc (“Nutritional High”)

Adam Szweras, a Director of the Company, serves as the Chairman of the Board of Directors of Nutritional High, a public company that manufactures and processes hemp and cannabis infused oils, extracts, and edible products for medical and adult use. During the three months ended March 31, 2020, the Company made purchases at arm's-length market rates in the amount of \$81,682 from a subsidiary of Nutritional High. As at March 31, 2020, an amount of \$130,849 (December 31, 2019 – \$103,687) owing to Nutritional High was included in accounts payable and accrued liabilities.

Entourage Effect Capital LLC

Matthew Hawkins, a director of the Company, is the Managing Partner of Entourage Effect Capital LLC (formerly Cresco Capital Partners II LLC), which subscribed for 288,000 Subscription Receipts for \$1,496,880 (C\$2,016,000) under the Brokered Concurrent Offering in May 2019.

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Branson Corporate Services Ltd.

Branson Corporate Services Ltd. (“Branson”), an entity where Mr. Bilodeau holds a 18% ownership interest and Mr. Szweras holds a 15% ownership interest and Mr. Li is employed, provides finance, accounting and administrative services to Harborside. During the three months ended March 31, 2020, the Company was charged \$33,494 (2019 – \$nil) for services provided by Branson, which is included in professional fees. As at March 31, 2020, an amount of \$11,948 (December 31, 2019 – \$nil) was owed to Branson.

Legal Transactions

For the three months ended March 31, 2020, Aird & Berlis LLP (“Aird & Berlis”), a law firm where Sherri Altshuler, a Director of Harborside, is also a partner, charged the Company \$89,522 (March 31, 2019 – \$157,159) for legal services, an amount which is included in professional fees. As at March 31, 2020, an amount of \$199,406 (December 31, 2019 – \$115,663) owing to Aird & Berlis was included in accounts payable and accrued liabilities.

For the three months ended March 31, 2020, Fogler, Rubinoff LLP (“Fogler”), a law firm in which Mr. Szweras is a partner, provided a credit of \$5,101 (2019 - \$nil) on legal services previously provided to the Company, of which the amount is netted against professional fees. As at March 31, 2020, an amount of \$47,628 (December 31, 2019 – \$54,846) owing to Fogler was included in accounts payable and accrued liabilities. A portion of the outstanding balance represents fees for services rendered by Fogler for Lineage prior to the RTO Transaction.

(c) Other Related Parties

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

(d) PMACC and SJW

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

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

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

Fees for services rendered pursuant to the Retail MSAs are equal to 15% of dispensary gross revenues plus reimbursement of expenses incurred on behalf of the Harborside dispensaries and are payable monthly. For the three months ended March 31, 2019, FLRish recognized contract services revenue of \$83,187 when PMACC and SJW were not considered to be under common control with FLRish. The 2019 revenues pertain to the revenues earned prior to the merger on January 7, 2019.

The Farm MSA, executed in September 2016, has a six-year term and automatically renews for an additional five-year term unless the parties mutually agree not to extend the term. The Farm MSA calls for PMACC to reimburse

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Savature for all expenses related to the cultivation and management services provided (the “Reimbursable Expenses”). Savature also charges an administration fee equal to 20% of the Reimbursable Expenses, which is payable monthly. The contract also provides for fees (“MSA Fees”) to be paid from PMACC to Savature based upon the sales performance of products produced under the contract. The MSA Fees are based on prices which are mutually agreed upon by the PMACC and Savature.

For the three months ended March 31, 2019, FLRish had recognized revenue of \$275,321 related to Reimbursable Expenses, administration fees, and MSA Fees associated with the Farm MSA. The 2019 revenues pertain to the revenues earned prior to the merger on January 7, 2019.

Harborside leased cultivation facilities, buildings, and improvements to PMACC. The lease agreement commenced on September 15, 2016, with a six-year term subject to an automatic five-year extension. The lease calls for monthly rent amounts ranging from \$185,895 to \$801,550 as additional rentable square foot is delivered. For the three months ended March 31, 2019, FLRish had recognized contract services revenue of \$82,744. The 2019 revenues pertain to the revenues earned prior to the merger on January 7, 2019.

For the year ended December 31, 2018, Harborside derived the entirety of its service and rental revenue from PMACC and SJW through the Retail MSAs and the Farm MSA. At January 7, 2019, the Company had an accounts receivable balance with PMACC and SJW in the amount of \$22,303,626. This balance was included as part of the total consideration paid for acquisition of PMACC and SJW by Harborside.

On October 29, 2018, Harborside loaned \$4,000,000 to PMACC by way of a promissory note bearing interest of 12%. All principal and accrued interest was payable in a balloon payment due October 29, 2019. At December 31, 2018, the note had principal outstanding of \$4,000,000 and accrued interest of \$57,400. The balance outstanding as of \$5,445,620 on January 7, 2019 was included as part of the total consideration paid for acquisition of PMACC and SJW by Harborside.

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

20. Income Taxes

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

The Company's income tax expense (recovery) for the interim periods is allocated as follows:

	Three Months Ended March 31	
	2020	2019
Current tax	\$ 1,090,339	\$ 881,034
Deferred tax	340,488	(36,423)
Income tax expense	\$ 1,430,827	\$ 844,611

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

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of asset and liabilities for

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financial reporting purposes and their tax values. Of the \$16.0 million net deferred tax liability as of March 31, 2020, \$15.5 million relates to temporary differences associated with intangible assets recorded on the acquisitions of PMACC, SJW, and the RTO Transaction with Lineage.

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

Movements in net deferred tax liabilities are due mainly to changes in the value of inventory and the biological assets for the three months ended March 31, 2020:

Balance as at December 31, 2019	\$ (15,651,198)
Net deferred tax liability from acquisitions	-
Recognized adjustment	<u>(340,488)</u>
Balance as at March 31, 2020	<u>\$ (15,991,686)</u>

21. Capital Risk Management

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

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

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

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

22. Financial Instruments and Risk Management

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

Financial instruments

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

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Financial Statement Caption	Classification
Cash	Amortized cost
Accounts receivable, net	Amortized cost
Deposits	Amortized cost
Investments	FVTPL
Advances	Cost
Accounts payable and accrued liabilities	Amortized cost
Notes payable and accrued interest	Amortized cost
Convertible notes payable	Amortized cost
Derivative liabilities	FVTPL

Fair value through profit and loss ("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 – inputs are unadjusted quoted prices of identical assets or liabilities in active markets;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, either directly (i.e. as prices) or indirectly (i.e. derived from prices from observable market data) from observable market data; and
- Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the asset or liability.

Financial instruments measured at amortized cost consist of cash, deposits, accounts receivable, accounts receivable - related party, and accounts payable and accrued liabilities wherein the carrying value approximates fair value due to its short-term nature. Other financial instruments measured at amortized cost include notes payable and convertible notes payable wherein the carrying value at the effective interest rate approximates fair value. The interest rate for notes payable and the interest rate used to discount the host debt contract for convertible notes payable approximate a market rate for similar instruments offered to the Company.

Cash, accounts receivable, accounts receivable-related party, and accounts payable and accrued liabilities are measured at Level 1 inputs. Investments and advances are initially measured using Level 1 inputs for cash advances and promissory notes. When the Company purchases additional equity interests and for certain liabilities, the fair value measurements require Level 3 inputs. The Derivative Liabilities use Level 3 inputs. Derivative Liabilities are measured at fair value at each reporting period based on a Monte Carlo Simulation option-pricing model. Refer to Note 14 for summary of key assumptions.

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 receivable, accounts receivable – related parties, notes receivable – related parties and investments and advances, which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash is primarily held with reputable banks, in trust with the Company's legal counsel, and at secure facilities controlled by the Company. Management believes that the credit risk concentration with respect to financial instruments included in cash and accounts receivable is minimal.

The Company provides trade credit to its wholesale customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk is generally limited for receivables from retail customers as the majority of retail sales are transacted with cash. Credit risk for wholesale customers is assessed on a quarterly basis and an allowance for credit losses is recorded where required. Refer to Note 4 for additional expected credit loss information.

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Liquidity risk

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

As at March 31, 2020, the Company had a cash balance of \$13.2 million (December 31, 2019 – \$12.2 million) to settle current liabilities of \$60.5 million (December 31, 2019 – \$56.4 million). The higher current liabilities as of March 31, 2020 is primarily due to the Company's provision for an uncertain tax position. Refer to Note 15 for additional information.

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

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

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 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 significant interest rate volatility as its notes payable and convertible notes are carried at a fixed interest rate throughout their term. The Company considers interest rate risk to be immaterial.

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.

Asset forfeiture risk

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

Banking risk

Notwithstanding that a majority of states have legalized medical cannabis, and the U.S. Congress's passage of the SAFE Banking Act, there has been no change in U.S. federal banking laws related to the deposit and holding of funds

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derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal under the U.S. Federal Controlled Substances Act, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry.

Due to the present state of the laws and regulations governing financial institutions in the US, only a small percentage of banks and credit unions offer financial services to the cannabis industry. Although the Company has strong relationships with several banking partners, regulatory restrictions currently prevent the Company from obtaining financing from U.S. federally regulated entities. Additionally, U.S. federal prohibitions on the sale of cannabis may result in cannabis manufacturers and retailers being restricted from accessing the U.S. banking system and they may be unable to deposit funds in federally chartered banking institutions. While the Company does not anticipate material impacts from dealing with banking restrictions directly relating to its business, additional banking restrictions could nevertheless be imposed that would result in existing deposit accounts being closed and/or the inability to make further bank deposits. The inability to open bank accounts would make it more difficult for the Company to operate and would substantially increase operating costs and risk.

Tax risk

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

Regulatory risk

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

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

23. Commitments and Contingencies

IRC Section 280E

Many of the central issues relating to the interpretation of IRC Section 280E remain unsettled and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E) that have never been addressed by any Treasury regulation or court case. IFRIC 23 - *Uncertainty over Income Tax Treatments* provides guidance that adds to the requirements in IAS 12, *Income Taxes* by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the Internal Revenue Service and the Tax Court, determined that a reserve for an uncertain tax position should be recorded. As of March 31, 2020, the reserve totaled \$37.0 million (December 31, 2019 – \$36.5 million).

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

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

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

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

Accucanna, LLC

Accucanna owns a retail dispensary in the City of Desert Hot Springs (“DHS”). In April 2018, Harborside entered into a retail management service agreement with the dispensary to provide management services regarding the processing, retailing and dispensing of cannabis and cannabis related products. The initial term is for five (5) years and shall renew automatically for two additional five-year periods, unless, on or before the date of renewal, the Company or Accucanna determine, in their sole discretion, that the agreements shall not renew.

In May 2018, Harborside entered into a stock purchase agreement with Accucanna, LLC (“Accucanna”) to purchase 10% of the equity of Accucanna, originally valued at \$500,000, to be issued at the Company’s option upon completion of delivery of cannabis and cannabis related products totaling \$500,000 in wholesale value.

The shares are to be issued at the Company’s option only upon delivery of products equal to \$500,000 at wholesale value. As of March 31, 2020, the Company had delivered products totaling \$398,313 (December 31, 2019 - \$229,953). As the issuance of shares would only occur upon successful delivery of goods totaling the committed amount, the investment has not been included in the advances table above and instead has been classified in the financial statements as Deposits with Accucanna at March 31, 2020.

Separation Agreement

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

Mediation with former employee

On October 28, 2019, the Company was contacted by an attorney representing a former employee, who has alleged being subjected to discrimination and retaliation, on the basis of both gender and having the status of a whistleblower with respect to alleged violations of Company policies reported to Company management and has demanded monetary damages in the amount of \$400,000, along with specified equitable relief. The Company believes that the allegations are false and without merit. The parties have agreed to meet for mediation on August 31, 2020.

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Gia Calhoun v. FLRish, Inc.

On January 6, 2020, the Company's subsidiary FLRish, Inc. was served with a complaint filed by plaintiff and putative class representative Ms. Gia Calhoun. The complaint, filed on December 17, 2019 in the U.S. Federal District Court for the Northern District of California (the "Court"), alleges violations of the Telephone Consumer Protection Act (47 USC §227 et seq.), ("TCPA") and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Ms. Calhoun. The Company believes that the complaint fails to state any claim upon which relief can be granted, and that it has meritorious defenses to the alleged causes of action. The Company further believes that Ms. Calhoun's allegations fail to adequately represent the claims of any alleged class of similarly situated plaintiffs. On April 6, 2020, the Company filed a motion to stay all proceedings in the matter pending a ruling by the U.S. Supreme Court in the case *Barr v. Am. Ass'n of Political Consultants, Inc.*, No. 19-631, concerning the constitutionality of Section 227(b) of the TCPA. On May 13, 2020, the Court granted Company's motion to stay all proceedings in the matter pending the U.S. Supreme Court's decision in the *Barr* case. The Court further informed the parties that it would be willing to entertain another motion to stay pending the Supreme Court's granting review on the issue of what constitutes an "automatic telephone dialing system" in the *Duguid v. Facebook* petition. On July 6, 2020, the U.S. Supreme Court ruled on *Barr* and invalidated the government-debt call exception, but severed that provision and did not strike down the entire automated call restriction of the TCPA. With respect to the Company's litigation, per the Court's order the parties filed a joint status report on July 13, 2020. On July 17, 2020, the parties appeared before the Court for a case management conference. In the interim, the Supreme Court granted review on the issue of what constitutes an "automatic telephone dialing system" ("ATDS") in the *Duguid v. Facebook* petition, and the Company subsequently proposed that the Court extend the stay until the Supreme Court issues a decision on Facebook's petition. At the case management conference on July 17 the Court ruled:

1. No class-related discovery is permitted
2. Within the next 90 days, FLRish may take discovery on plaintiff's DNC claim
3. Within the next 90 days, plaintiff may take discovery on the issue of whether an "automatic telephone dialing system" (ATDS) was used to call Plaintiff. However, the court expressly ruled that the parties may not engage in any expert discovery on the ATDS issue.

The court set another Case Management Conference for October 16, 2020, and the parties will file another joint status report a week in advance. No trial date has been set and the case remains in the discovery phase.

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

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

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.

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24. General and Administrative Expenses

For the three ended March 31, 2020 and 2019, general and administrative expenses consisted of the following:

	Three months ending	
	March 31, 2020	March 31, 2019
Advertising and promotion	\$ 137,520	\$ 60,016
Bad debt expense / (Recoveries)	5,000	-
Banking and processing fees	189,366	198,417
Other general administrative	18,470	23,234
Office and general expenses	1,018,992	901,477
Salaries and benefits	2,605,155	3,160,324
Taxes and licenses	60,968	248,097
Travel and entertainment	88,359	50,167
Total	\$ 4,123,830	\$ 4,641,732

25. Net Loss Per Share

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

The weighted average number of shares outstanding, both basic and diluted, were:

Three months ended March 31	
2020	2019
49,432,795	19,570,057

For purposes of determining the net loss per share, historical financial statements of the legal acquiree (accounting acquirer) are presented to retroactively adjust the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree. Accordingly, for purposes of calculating the weighted average number of shares outstanding for 2019, the number of shares outstanding are retroactively adjusted to reflect the legal capital of the legal parent (accounting acquiree), including the impact of Harborside's stock dividend and the conversion rate of Harborside's shares into SVS at the time of the RTO Transaction. For purposes of calculating loss per share, the dilutive effect of each outstanding MVS is converted into 100 SVS on a weighted-average basis for the number of days the MVS is outstanding.

Potentially dilutive shares were excluded from the calculations of diluted net loss per share for the three months ended March 31, 2020 and 2019 because they are deemed to be antidilutive.

26. Segmented Information

The Company's operations comprise a single operating segment engaged in the cultivation, branding, distribution and retail management of cannabis within the US. All revenues are generated in the U.S. and all property, plant and equipment and intangible assets are located in the US.

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27. Subsequent Events

Subsequent events were evaluated through the issuance date of this report:

COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (“COVID-19”) a “Public Health Emergency of International Concern” and on March 10, 2020, declared COVID-19 a pandemic. The pandemic has had far-reaching impacts on every business and every individual globally. For the time being and until economies stabilize, Harborside has shifted its strategic approach and the manner in which it operates its business to continue providing affordable and high quality products to its customers, and ensure that its workplace and stores have appropriate measures put in place to limit social interactions and enforce social distancing measures. At the same time, the Company has also taken steps to alter its marketing methods, conserve cash, and adjust its overall strategic direction to preserve the health of its business.

On March 25, 2020, the Company announced the initiatives it had put forth as a response to the impact of the outbreak of the COVID-19 pandemic. Such initiatives aim to allow the Company to continue offering affordable and high quality products in a safe environment, with additional measures put in place to allow its customers to access its products while limiting social interactions, and enforcing social distancing measures throughout its retail stores. These initiatives have allowed the Company to operate mostly uninterrupted and to implement its business continuity plan. Some of the measures that Harborside initiated included: (i) increasing curbside pick-up and/or drive-thru options at all of its retail locations; (ii) expanding home delivery services to customers located in Oakland, San Jose, and the Greater East Bay and Peninsula areas; and (iii) updating its safety and sanitation protocols in-store. The Company also emphasized its continued efforts to align labor costs with customer demand, cut all non-essential operational expenses, hold off on any non-accretive operational and capital projects, and suspend all non-essential supplier contracts.

As of the issuance of this report, the Company’s operations have not been significantly impacted as cannabis has been deemed an essential service in the states of California and Oregon since March 2020. At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Company’s business, results of operations and financial condition.

Dispensaries

On April 30, 2020, Harborside discontinued the operations of its retail dispensary in Portland, Oregon due to the results of a strategic review of the Company’s operations and a decision to focus on its highest return-on-investment assets, specifically those with potential for revenue growth and profitability within the next 12 months.

Related party transactions

On April 10, 2020, the Company entered into a consulting agreement with Black Oak Ventures Ltd. (“Black Oak”) to provide certain investor relations services to the Company in exchange for cash compensation. A principal of Black Oak is an immediate family member of the Company’s Interim CEO.

On June 1, 2020, the Company entered into a consulting agreement with Newhouse Development, LLC (“Newhouse”) to provide certain financial and accounting services to the Company in exchange for cash compensation. The partner of Newhouse is an immediate family member of the Company’s CFO.

Cease Trade Order

On June 8, 2020, the Ontario Securities Commission (the “OSC”) issued a cease trade order (the “CTO”) which prevents trading in the Company’s SVS until after it has filed: (i) the amended and restated financial statements of FLRish for the years ended December 31, 2017 and 2018 (the “Restated 2018 Financials”); (ii) the annual financial statements and related management’s discussion and analysis of the Company for the year ended December 31, 2019

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(together with the Restated 2018 Financials, the “Outstanding Annual Filings”); and (iii) the interim financial report and related management’s discussion and analysis of the Company for the period ended March 31, 2020. On August 10, 2020, the Company filed the Outstanding Annual Filings. The Company will apply to the OSC to have the CTO revoked after it has filed the interim financial report and related management’s discussion and analysis of the Company for the period ended March 31, 2020. The Company expects trading to resume on the CSE shortly after the revocation of the CTO. While the Company will make the application, there is no assurance that the OSC will grant the revocation order.