



HARBORSIDE INC.

UNAUDITED RESTATED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(EXPRESSED IN UNITED STATES DOLLARS)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited restated 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 restated 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 restated 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.

Amended to include financial information to August 12, 2020 (see Note 2).

HARBORSIDE INC.

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

	Notes	As Restated (see Note 2.1)	
		As at September 30, 2019	As at December 31, 2018
		\$	\$
Assets			
Current Assets			
Cash and cash equivalents		16,338,799	14,762,661
Accounts receivable, net	5	1,571,616	-
Accounts receivable - related party	22	-	22,147,570
Inventories	6	2,655,625	-
Biological assets	7	1,194,120	-
Prepaid expenses	8	1,494,656	69,584
Total Current Assets		23,254,816	36,979,815
Non-Current Assets			
Investments and advances	9	3,670,328	-
Property, plant and equipment	10	20,794,820	17,236,331
Right-of-use assets	12	1,202,655	-
Deposits		57,853	277,130
Notes receivable - related party	22	-	7,046,346
Intangible assets	11	52,153,869	-
Goodwill	11	51,010,630	-
Total Assets		152,144,971	61,539,622
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	13	14,359,140	4,980,133
Notes payable and accrued interest - current	14	-	1,780,000
Convertible notes payable - current	15	150,000	-
Derivative liabilities - current	16	88,926	-
Lease payable - current	12	325,256	-
Income tax payable	23	2,561,366	147,742
Provisions	17	35,902,771	-
Total Current Liabilities		53,387,459	6,907,875
Non-Current Liabilities			
Notes payable and accrued interest	14	10,074,726	9,709,474
Series A preferred liability	20	-	28,359,357
Convertible notes payable	15	673,071	16,036,285
Derivative liabilities	16	416,320	15,046,628
Deferred tax liability	23	15,681,142	-
Lease payable	12	2,146,519	-
Total Liabilities		82,379,237	76,059,619
Shareholders' Equity (Deficit)			
Share capital	18	94,282,409	9,608,048
Contributed surplus	19	9,644,111	6,091,639
Reserve for warrants	21	1,187,777	632,728
Accumulated deficit		(35,348,563)	(30,852,412)
Total Shareholders' Equity (Deficit)		69,765,734	(14,519,997)
Total Liabilities and Shareholders' Equity (Deficit)		152,144,971	61,539,622

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

	Notes	As Restated (see Note 2.1)			
		For the three months ended		For the nine months ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
		\$	\$	\$	\$
Retail revenue, net		10,393,497	-	29,042,364	-
Wholesale revenue, net		3,299,720	-	8,272,000	-
Services and rental revenue - related party	22	-	5,993,655	441,252	15,985,256
Gross revenue		13,693,217	5,993,655	37,755,616	15,985,256
Excise taxes		(802,208)	-	(1,725,456)	-
Net Revenue		12,891,009	5,993,655	36,030,160	15,985,256
Cost of goods sold - retail		5,357,007	-	15,150,495	-
Cost of goods sold - wholesale		2,569,283	-	7,710,126	-
Cost of revenue		-	2,348,293	285,196	6,100,146
		7,926,290	2,348,293	23,145,817	6,100,146
Gross Profit before Biological Assets Adjustments		4,964,719	3,645,362	12,884,343	9,885,110
Change in fair value less costs to sell of biological asset transformation	7	(1,135,841)	-	(3,169,441)	-
Realized fair value amounts included in inventory sold		1,059,234	-	2,044,360	-
Gross Profit		4,888,112	3,645,362	11,759,262	9,885,110
Expenses					
General and administrative	27	5,227,218	2,315,372	14,715,063	7,927,012
Professional fees		1,058,754	625,062	7,356,107	1,742,886
Share-based compensation	19	323,884	1,511,926	1,704,435	4,830,104
Allowance for expected credit losses		335,769	-	335,769	-
Write-downs of receivables, investments and advances	5, 9	1,307,794	-	1,398,128	-
Depreciation and amortization		211,536	341,963	649,382	832,131
		8,464,955	4,794,323	26,158,884	15,332,133
Loss before the Undernoted		(3,576,843)	(1,148,961)	(14,399,622)	(5,447,023)
Interest expense		(1,030,157)	(451,540)	(6,074,910)	(1,841,008)
Other income (expense)		(121,098)	(290,964)	(144,783)	(256,773)
Fair value change in derivative liabilities and preferred shares	16, 20	4,180,671	(944,383)	19,374,229	(2,519,943)
Loss on Debt Extinguishment	14, 20	-	-	-	(4,475,564)
Foreign exchange (loss) gain		(57,486)	-	72,822	-
Total Other Income (Expenses)		2,971,930	(1,686,887)	13,227,358	(9,093,288)
Net Loss before Income Taxes		(604,913)	(2,835,848)	(1,172,264)	(14,540,311)
Income tax (expense) recovery	23	(1,338,583)	(38,727)	(3,323,887)	(115,414)
Net Loss and Comprehensive Loss		(1,943,496)	(2,874,575)	(4,496,151)	(14,655,725)
Weighted Average Number of Shares Outstanding					
Basic and diluted	28	42,098,670	14,965,393	30,142,855	9,473,346
Net Loss per Share					
Basic and diluted		\$ (0.05)	\$ (0.19)	\$ (0.15)	\$ (1.55)

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

HARBORSIDE INC.

Unaudited Restated Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the Nine Months ended September 30, 2019 and 2018

(Expressed in United States Dollars except share amounts)

	Note	As Restated (see Note 2.1)					Total
		Share Capital	Contributed Surplus	Warrants	Accumulated Deficit	Non-Controlling Interest	
		\$	\$	\$	\$	\$	\$
Balance, January 1, 2018		100,949	231,989	-	(12,517,440)	9,139,504	(3,044,998)
Adjustment on adoption of IFRS 9 - credit loss reserve		-	-	-	(493,740)	-	(493,740)
Exercise of stock options	19	13,437	-	-	-	-	13,437
Share-based compensation	19	-	4,830,104	-	-	-	4,830,104
Purchase of NCI by issuance of Series B Common Stock	4	9,000,000	-	-	(260,496)	(8,739,504)	-
Distribution to non-controlling interest		-	-	-	-	(400,000)	(400,000)
Net loss for the period		-	-	-	(14,655,725)	-	(14,655,725)
Balance, September 30, 2018		9,114,386	5,062,093	-	(27,927,401)	-	(13,750,922)
Balance, January 1, 2019		9,608,048	6,091,639	632,728	(30,852,412)	-	(14,519,997)
Exercise of stock options	19	72,477	-	-	-	-	72,477
Share-based compensation	19	-	1,704,435	-	-	-	1,704,435
Series B common shares issued for PMACC acquisition	4	13,288,090	-	-	-	-	13,288,090
Concurrent raise offering for share capital	18	10,733,544	-	-	-	-	10,733,544
Concurrent raise offering issuance costs	18	(1,354,921)	-	-	-	-	(1,354,921)
Issuance of broker warrants	21	-	-	460,864	-	-	460,864
Issuance on reverse takeover transaction	4	11,016,549	1,878,691	94,185	-	-	12,989,425
Conversion of convertible debentures	15, 20	48,635,489	-	-	-	-	48,635,489
Expiry of options issued on reverse takeover	19	30,654	(30,654)	-	-	-	-
Share-based payments for professional fees expense	19	2,252,479	-	-	-	-	2,252,479
Net loss for the period		-	-	-	(4,496,151)	-	(4,496,151)
Balance, September 30, 2019		94,282,409	9,644,111	1,187,777	(35,348,563)	-	69,765,734

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

HARBORSIDE INC.

Unaudited Restated Condensed Interim Consolidated Statements of Cash Flows

For the Nine Months ended September 30, 2019 and 2018

(Expressed in United States Dollars except share amounts)

	Notes	As Restated (see Note 2.1)	
		For the nine months ended	
		September 30, 2019	September 30, 2018
		\$	\$
Operating Activities			
Net Loss for the period		(4,496,151)	(14,655,725)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share-based compensation	19	1,704,435	4,830,104
Share-based compensation for professional fees	18	2,252,479	-
Depreciation and amortization	7,10	1,226,389	832,131
Right-of-use assets amortization	12	452,194	-
Change in fair value of biological assets	7	3,169,441	-
Change in fair value in derivative liabilities	14,15	(19,374,229)	2,519,943
Allowance for expected credit losses	9	335,769	-
Write-downs of receivables, investments and advances	9	1,398,128	-
Accretion of interest and debt discount on convertible debentures	15	3,101,202	-
Amortization of debt issuance costs		-	46,522
Loss on debt extinguishment	14	-	4,475,564
Professional fees classified as financing activities - concurrent financing		486,730	-
Equity in losses of unconsolidated affiliates	9	160,000	-
Foreign exchange gain		(72,822)	-
		(9,656,435)	(1,951,461)
Changes in non-cash working capital:			
Accounts receivable	4,5	(881,203)	-
Accounts receivable - related party	4	(156,056)	(7,633,978)
Inventories	4,6	283,138	-
Biological assets	7	(3,748,486)	-
Prepaid expenses	4,8	(858,088)	(109,684)
Deposits		232,400	49,236
Accounts payable and accrued liabilities	4,13	3,749,033	429,046
Accrued interest on notes payable	14	379,743	329,577
Lease liability	12	(248,415)	-
Income tax payable		2,325,716	109,014
Provisions		1,726,771	-
Deferred tax liability		(62,960)	-
Deferred gain on sale of equipment		-	(330,916)
Cash Flows (used in) Operating Activities		(6,914,842)	(9,109,166)
Financing Activities			
Proceeds from issuance of Series A Preferred Stock	16	-	5,500,000
Proceeds raised in concurrent financing, net of cash paid in brokers fees	16	14,589,298	-
Cash issuance costs for concurrent financing		(1,380,777)	-
Proceeds from notes payable, net of loan fees		-	5,167,500
Repayment of notes payable	14,15	(1,780,000)	(1,234,209)
Proceeds from exercise of stock options	19	72,477	13,437
Distribution to non-controlling interest		-	(400,000)
Cash Flows provided by Financing Activities		11,500,998	9,046,728
Investing Activities			
Cash acquired on reverse takeover of Lineage	4	210,143	-
Cash acquired on acquisition of PMACC/SJW	4	2,129,223	-
Advances to unconsolidated affiliates - SLWS	9	(860,762)	-
Advances to unconsolidated affiliates - Agris	9	(1,000,000)	-
Purchases of property, plant and equipment	10	(3,619,442)	(2,059,765)
Payments received on notes receivable - related party	10	-	1,000,075
Cash Flows (used in) Investing Activities		(3,140,838)	(1,059,690)
Increase (Decrease) in cash		1,445,318	(1,122,128)
Effects of foreign exchange on cash		130,820	-
Cash, beginning of period		14,762,661	1,490,612
Cash, end of period		16,338,799	368,484

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

HARBORSIDE INC.

Unaudited Restated Condensed Interim Consolidated Statements of Cash Flows

For the Nine Months ended September 30, 2019 and 2018

(Expressed in United States Dollars except share amounts)

	As Restated (see Note 2.1)	
	For the nine months ended	
	September 30,	September 30,
	2019	2018
Supplementary Information		
Interest paid	612,900	1,560,365
Income taxes paid	811,000	39,089
Non-Cash Investing and Financing Activities		
Cumulative impact of adoption of IFRS 9	-	493,740
Purchase of non-controlling interest by issuance of Series B Common Stock	-	9,000,000
Series B Convertible Debentures converted to Series B Common Shares 15	20,884,175	-
Series A Preferred issued upon conversion of derivative liability	-	3,663,483
Conversion of notes payable and accrued interest to Series A Preferred Stock	-	12,304,398
Proceeds from issuance of 2019 Convertible Debentures received in 2018	1,857,165	-

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

HARBORSIDE INC.

Notes to the Unaudited Restated Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Expressed in United States Dollars except share amounts)

1. Nature of Operations

As of September 30, 2019, Harborside Inc. (“Harborside” or the “Company”), through its affiliated entities, owns and operates two retail dispensaries in California, two retail dispensaries in Oregon (the “Terpene Station Dispensaries”) and a cultivation facility in Salinas, California (the “Farm”). 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 (“US”).

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 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. See Notes 4 and 18 for additional details. On June 10, 2019, the SVS began trading on the CSE.

2. Basis of Presentation

2.1 Restatement

The Company has restated its previously reported unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2019, and all related disclosures. The restatement followed a review of the Company’s consolidated financial statements and accounting records that was undertaken as part of the audit of the consolidated financial statements for the year ended December 31, 2019. This restatement has been prepared with information to August 12, 2020.

The restatement was primarily due to the acquisitions of Patients Mutual Assistance Collective Corporation (“PMACC”) and San Jose Wellness (“SJW”) on January 7, 2019, which was deemed for accounting purposes to be a business combination that must be accounted for as an acquisition under IFRS 3 – *Business Combinations*. Further, the restatements included in the FLRish, Inc. Amended and Restated Consolidated Financial Statements for the years ended the December 31, 2018 and 2017 (the “2018 Restated Financial Statements”) contributed to the adjustments required.

The Company has, amongst other things, increased the quantum reserved in relation to the provision for taxes purported to be owing by PMACC and SJW for historical periods. The provision was reflected retrospectively as part of the purchase accounting (see Note 4), in part as a result of a U.S. Tax Court decision in October 2019 (see Note 17).

HARBORSIDE INC.

Notes to the Unaudited Restated Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Expressed in United States Dollars except share amounts)

Summary of the Impact of Restatements on the Consolidated Financial Statements

The following is a summary of the impact of the restatements on the previously issued unaudited condensed interim consolidated statements of financial position, statements of loss and comprehensive loss, statement of changes in shareholders' equity (deficit) and statements of cash flows as of September 30, 2019 and December 31, 2018 and for the three and nine months ended September 30, 2019 and 2018 (note supplementary information and non-cash investing and financing activities were excluded from the originally reported statements of cash flows, but are included in the restated statements of cash flows):

HARBORSIDE INC.

Notes to the Unaudited Restated Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Financial Position

	As at September 30, 2019			
	As Reported	Note 2.1	Adjustments	As Restated
Assets	\$		\$	\$
Current Assets				
Cash and cash equivalents	16,626,218	(8)	(287,419)	16,338,799
Accounts receivable, net	1,484,147	(8)	87,469	1,571,616
Inventories	4,160,980	(1),(8)	(1,505,355)	2,655,625
Biological assets	2,712,445	(1)	(1,518,325)	1,194,120
Prepaid expenses	1,864,383	(8)	(369,727)	1,494,656
Total Current Assets	26,848,173		(3,593,357)	23,254,816
Non-Current Assets				
Investment and advances	4,509,514	(1)	(839,186)	3,670,328
Property, plant and equipment	13,199,642	(2)	7,595,178	20,794,820
Right-of-use assets	414,097	(3)	788,558	1,202,655
Deposits	57,853		-	57,853
Intangible assets	415,905	(1)	51,737,964	52,153,869
Goodwill	7,579,421	(1)	43,431,209	51,010,630
Total Assets	53,024,605		99,120,366	152,144,971
Liabilities and Shareholders' Equity (Deficit)				
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	13,571,650	(8)	787,490	14,359,140
Convertible notes payable - current	-	(8)	150,000	150,000
Derivative liabilities - current	107,662	(8)	(18,736)	88,926
Lease payable - current	44,306	(3)	280,950	325,256
Income tax payable	2,089,038	(1),(8)	472,328	2,561,366
Provisions	-	(1)	35,902,771	35,902,771
Deferred gain - current	38,553	(2)	(38,553)	-
Total Current Liabilities	15,851,209		37,536,250	53,387,459
Long-Term Liabilities				
Convertible notes payable	823,071	(8)	(150,000)	673,071
Notes payable and accrued interest	-	(2)	10,074,726	10,074,726
Derivative liabilities	65,888	(4)	350,432	416,320
Warrant derivative liability	436,850	(4)	(436,850)	-
Provisions	15,370,000	(1)	(15,370,000)	-
Lease payable	385,145	(3)	1,761,374	2,146,519
Deferred tax liability	98,279	(1)	15,582,863	15,681,142
Deferred gain	224,895	(2)	(224,895)	-
Deferred rent	197,600	(2)	(197,600)	-
Total Liabilities	33,452,937		48,926,300	82,379,237
Shareholders' Equity (Deficit)				
Share capital	71,125,662	(5),(8)	23,156,747	94,282,409
Contributed surplus	8,628,456	(5),(8)	1,015,655	9,644,111
Reserve for warrants	2,245,264	(6),(8)	(1,057,487)	1,187,777
Accumulated other comprehensive income	(40,879)	(8)	40,879	-
Accumulated deficit	(62,386,835)	(7)	27,038,272	(35,348,563)
Total Shareholders' Equity (Deficit)	19,571,668		50,194,066	69,765,734
Total Liabilities and Shareholders' Equity (Deficit)	53,024,605		99,120,366	152,144,971

HARBORSIDE INC.

Notes to the Unaudited Restated Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2019 and 2018
(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

	For the three months ended September 30, 2019				For the nine months ended September 30, 2019			
	As Reported	Note 2.1	Adjustments	As Restated	As Reported	Note 2.1	Adjustments	As Restated
	\$		\$	\$	\$		\$	\$
Retail revenue, net	10,399,708	(8)	(6,211)	10,393,497	30,125,846	(8)	(1,083,482)	29,042,364
Wholesale revenue, net	3,674,774	(8)	(375,054)	3,299,720	8,647,055	(8)	(375,055)	8,272,000
Services and rental revenue - related party	-		-	-	-	(8)	441,252	441,252
Gross revenue	14,074,482		(381,265)	13,693,217	38,772,901		(1,017,285)	37,755,616
Excise tax	-	(8)	(802,208)	(802,208)	-	(8)	(1,725,456)	(1,725,456)
Net Revenue	14,074,482		(1,183,473)	12,891,009	38,772,901		(2,742,741)	36,030,160
Cost of good sold - retail	(6,436,065)	(8)	1,079,058	(5,357,007)	(18,635,317)	(8)	3,484,822	(15,150,495)
Cost of good sold - wholesale	(4,451,269)	(8)	1,881,986	(2,569,283)	(8,020,009)	(8)	309,883	(7,710,126)
Cost of revenue	-		-	-	-	(8)	(285,196)	(285,196)
	(10,887,334)		2,961,044	(7,926,290)	(26,655,326)		3,509,509	(23,145,817)
Gross profit before biological assets adjustments	3,187,148		1,777,571	4,964,719	12,117,575		766,768	12,884,343
Change in fair value less costs to sell of biological asset transformation	(1,275,150)	(8)	139,309	(1,135,841)	(1,130,387)	(8)	(2,039,054)	(3,169,441)
Realized fair value amounts included in inventory sold	-	(8)	1,059,234	1,059,234	-	(8)	2,044,360	2,044,360
Gross profit	1,911,998		2,976,114	4,888,112	10,987,188		772,074	11,759,262
Expenses								
General and administrative	5,415,700	(8)	(188,482)	5,227,218	15,136,397	(8)	(421,334)	14,715,063
Professional fees	590,082	(8)	468,672	1,058,754	5,615,218	(8)	1,740,889	7,356,107
Share-based compensation	2,046,214	(8)	(1,722,330)	323,884	4,628,612	(8)	(2,924,177)	1,704,435
Write-downs of receivables, investments and advances	-	(8)	1,307,794	1,307,794	-	(8)	1,398,128	1,398,128
Share-based payments	-	(8)	-	-	2,252,479	(8)	(2,252,479)	-
Allowance for expected credit losses	338,332	(8)	(2,563)	335,769	338,332	(8)	(2,563)	335,769
Depreciation and amortization	284,120	(2),(8)	(72,584)	211,536	851,073	(2),(8)	(201,691)	649,382
	8,674,448		(209,493)	8,464,955	28,822,111		(2,663,227)	26,158,884
Loss before the Undernoted	(6,762,450)		3,185,607	(3,576,843)	(17,834,923)		3,435,301	(14,399,622)
Other Income (Expense)								
Interest expense	(56,254)	(8)	(973,903)	(1,030,157)	(4,833,488)	(8)	(1,241,422)	(6,074,910)
Fair value change in derivative liabilities and preferred shares	9,020,685	(8)	(4,840,014)	4,180,671	17,236,959	(8)	2,137,270	19,374,229
Write-down of investments	(1,238,128)	(8)	1,238,128	-	(1,238,128)	(8)	1,238,128	-
Gain on sale of equipment	9,638	(2)	(9,638)	-	28,915	(2)	(28,915)	-
Other income (expense)	(108,333)	(8)	(12,765)	(121,098)	(73,799)	(8)	(70,984)	(144,783)
Foreign exchange gain (loss)	(66,280)	(8)	8,794	(57,486)	1,151,773	(8)	(1,078,951)	72,822
Provisions	-	(1)	-	-	(15,370,000)	(1)	15,370,000	-
Total Other Income (Expense)	7,561,328		(4,589,398)	2,971,930	(3,097,768)		16,325,126	13,227,358
Net Loss before Income Taxes	798,878		(1,403,791)	(604,913)	(20,932,691)		19,760,427	(1,172,264)
Income tax expense	(2,000,000)	(8)	661,417	(1,338,583)	(2,000,000)	(8)	(1,323,887)	(3,323,887)
Net Loss	(1,201,122)		(742,374)	(1,943,496)	(22,932,691)		18,436,540	(4,496,151)
Other Comprehensive Income								
Exchange loss on translation of foreign operations	(57,168)		57,168	-	(40,879)		40,879	-
Total Comprehensive Loss	(1,258,290)		(685,206)	(1,943,496)	(22,973,570)		18,477,419	(4,496,151)
Weighted Average Number of Shares Outstanding								
Basic and diluted	39,043,574			42,098,670	32,156,682			30,142,855
Net Loss per Share								
Basic and diluted	(0.03)			(0.05)	(0.71)			(0.15)

HARBORSIDE INC.

Notes to the Unaudited Restated Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2019 and 2018
(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

	Share Capital See Note 2.1			Contributed Surplus See Note 2.1			Warrants See Note 2.1			Accumulated Deficit See Note 2.1			Accumulated Other Comprehensive Income See Note 2.1			Total See Note 2.1		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance, January 1, 2019	14,338,143	(4,730,095)	9,608,048	4,488,422	1,603,217	6,091,639	1,022,772	(390,044)	632,728	(40,427,152)	9,574,740	(30,852,412)	-	-	-	(20,577,815)	6,057,818	(14,519,997)
Exercise of stock options	90,869	(18,392)	72,477	(19,456)	19,456	-	-	-	-	-	-	-	-	-	-	71,413	1,064	72,477
Series B common shares issued for PMACC acquisition	-	13,288,090	13,288,090	-	-	-	-	-	-	-	-	-	-	-	-	-	13,288,090	13,288,090
Series A Preferred Stock dividends	-	-	-	-	-	-	-	-	-	973,008	(973,008)	-	-	-	-	-	(973,008)	-
Concurrent raise offering for share capital	14,587,132	(3,853,588)	10,733,544	-	-	-	-	-	-	-	-	-	-	-	14,587,132	(3,853,588)	10,733,544	
Concurrent raise offering issuance costs	-	(1,354,921)	(1,354,921)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,354,921)	(1,354,921)
Issuance on reverse takeover transaction	6,988,882	4,027,667	11,016,549	-	1,878,691	1,878,691	-	94,185	94,185	-	-	-	-	-	6,988,882	6,000,543	12,989,425	
Share-based compensation	-	-	-	4,159,490	(2,455,055)	1,704,435	-	-	-	-	-	-	-	-	4,159,490	(2,455,055)	1,704,435	
Share-based payments for professional fees	2,252,479	-	2,252,479	-	-	-	-	-	-	-	-	-	-	-	2,252,479	-	2,252,479	
Issuance of shares as settlement for interest payable	2,253,719	(2,253,719)	-	-	-	-	-	-	-	-	-	-	-	-	2,253,719	(2,253,719)	-	
Conversion of convertible debentures	35,727,116	12,908,373	48,635,489	-	-	-	-	-	-	-	-	-	-	-	35,727,116	12,908,373	48,635,489	
Expiry of options issued on reverse takeover	-	30,654	30,654	-	(30,654)	(30,654)	-	-	-	-	-	-	-	-	-	-	-	
Purchase of non-controlling interest by issuance of Series B common stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Issuance of broker warrants	-	-	-	-	-	-	1,222,492	(761,628)	460,864	-	-	-	-	-	1,222,492	(761,628)	460,864	
Fair value of derivative liability - concurrent raise warrants	(3,890,186)	3,890,186	-	-	-	-	-	-	-	-	-	-	-	-	(3,890,186)	3,890,186	-	
Share issuance costs	(1,222,492)	1,222,492	-	-	-	-	-	-	-	-	-	-	-	-	(1,222,492)	1,222,492	-	
Net loss for the period	-	-	-	-	-	-	-	-	-	(22,932,691)	18,436,540	(4,496,151)	(40,879)	40,879	(22,973,570)	18,477,419	(4,496,151)	
Balance, September 30, 2019	71,125,662	23,156,747	94,282,409	8,628,456	1,015,655	9,644,111	2,245,264	(1,057,487)	1,187,777	(62,386,835)	27,038,272	(35,348,563)	(40,879)	40,879	19,571,668	50,194,066	69,765,734	

HARBORSIDE INC.

Notes to the Unaudited Restated Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Cash Flows

	For the nine months ended September 30, 2019		
	See Note 2.1		
	As Reported	Adjustments	As Restated
	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period	(22,932,691)	18,436,540	(4,496,151)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	851,073	375,316	1,226,389
Right-of-use assets amortization	20,952	431,242	452,194
Accretion of interest and debt discount on convertible debentures	-	3,101,202	3,101,202
Change in fair value of biological assets	970,387	2,199,054	3,169,441
Change in fair value of derivative liabilities	(17,236,959)	(2,137,270)	(19,374,229)
Professional fees classified as financing activities - concurrent financing	-	486,730	486,730
Equity in losses of unconsolidated affiliates	-	160,000	160,000
Allowance for expected credit losses	338,332	(2,563)	335,769
Income tax provision	2,000,000	(2,000,000)	-
Provisions	15,370,000	(15,370,000)	-
Share-based compensation	4,159,490	(2,455,055)	1,704,435
Share-based payments for professional fees	2,252,479	-	2,252,479
Deferred rent	68,400	(68,400)	-
Write-downs of receivables, investments and advances	1,238,128	160,000	1,398,128
Gain on sale of equipment	(28,915)	28,915	-
Accretion of convertible debentures	2,880,011	(2,880,011)	-
Foreign exchange gain	-	(72,822)	(72,822)
	(10,049,313)	392,878	(9,656,435)
Changes in non-cash working capital:			
Accounts receivable - related party	-	(156,056)	(156,056)
Accounts receivable	(779,601)	(101,602)	(881,203)
Inventories	(384,028)	667,166	283,138
Biological assets	-	(3,748,486)	(3,748,486)
Prepaid expenses	(187,083)	(671,005)	(858,088)
Deposits	(767,600)	1,000,000	232,400
Deferred tax liability	-	(62,960)	(62,960)
Accounts payable and accrued liabilities	185,890	3,563,143	3,749,033
Notes payable and accrued interest - current	1,042,049	(662,306)	379,743
Lease payable	-	(248,415)	(248,415)
Provisions	-	1,726,771	1,726,771
Deferred gain	(28,915)	28,915	-
Income tax payable	-	2,325,716	2,325,716
NET CASH USED IN OPERATING ACTIVITIES	(10,968,601)	4,053,759	(6,914,842)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash acquired on reverse takeover of Lineage	210,143	-	210,143
Cash acquired on acquisition of PMACC/SJW	-	2,129,223	2,129,223
Advances to unconsolidated affiliates - SLWS	-	(860,762)	(860,762)
Advances to unconsolidated affiliates - Agris	-	(1,000,000)	(1,000,000)
Investments in San Leandro	(860,763)	860,763	-
Purchases of property, plant and equipment	(3,232,597)	(386,845)	(3,619,442)
NET CASH USED IN INVESTING ACTIVITIES	(3,883,217)	742,379	(3,140,838)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments on Notes Payable	(1,750,886)	(29,114)	(1,780,000)
Proceeds from exercise of stock options	71,414	1,063	72,477
Proceeds from issuance of convertible debentures	1,857,166	(1,857,166)	-
Proceeds raised in concurrent financing, net of cash paid in brokers fees	14,587,132	2,166	14,589,298
Cash issuance costs for concurrent financing	-	(1,380,777)	(1,380,777)
NET CASH PROVIDED BY FINANCING ACTIVITIES	14,764,826	(3,263,828)	11,500,998
(DECREASE) INCREASE IN CASH	(86,992)	1,532,310	1,445,318
Effects of foreign exchange on cash	(286,798)	417,618	130,820
CASH, BEGINNING OF PERIOD	17,000,008	(2,237,347)	14,762,661
CASH, END OF PERIOD	16,626,218	(287,419)	16,338,799

HARBORSIDE INC.

Notes to the Unaudited Restated Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Financial Position

	As at December 31, 2018			
	As Reported	Note 2.1	Adjustments	As Restated
Assets	\$		\$	\$
Current Assets				
Cash and cash equivalents	17,000,008	(9)	(2,237,347)	14,762,661
Accounts receivable, net	643,303	(9)	(643,303)	-
Accounts receivable - related party	-	(9)	22,147,570	22,147,570
Inventories	3,692,851	(9)	(3,692,851)	-
Biological assets	3,682,832	(9)	(3,682,832)	-
Prepaid expenses	1,657,756	(9)	(1,588,172)	69,584
Notes receivables	1,538,469	(9)	(1,538,469)	-
Total Current Assets	28,215,219		8,764,596	36,979,815
Non-Current Assets				
Investment and advances	1,891,992	(9)	(1,891,992)	-
Property, plant and equipment	10,401,569	(9), (14)	6,834,762	17,236,331
Notes receivable - related party	-	(9), (10)	7,046,346	7,046,346
Deposits	290,253	(9)	(13,123)	277,130
Total Assets	40,799,033		20,740,589	61,539,622
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	12,686,002	(9)	(7,705,869)	4,980,133
Notes payable and accrued interest - current	1,591,377	(11)	188,623	1,780,000
Income tax payable	49,311	(12)	98,431	147,742
Accrued dividend	973,008	(13)	(973,008)	-
Deferred gain - current	38,553	(14)	(38,553)	-
Total Current Liabilities	15,338,251		(8,430,376)	6,907,875
Long Term Liabilities				
Convertible notes payable	17,679,766	(11)	(1,643,481)	16,036,285
Series A preferred liability	-	(13)	28,359,357	28,359,357
Notes payable and accrued interest	-	(14)	9,709,474	9,709,474
Derivative liabilities	22,426,008	(13)	(7,379,380)	15,046,628
Warrant derivative liability	5,700,737	(13)	(5,700,737)	-
Deferred gain	253,810	(14)	(253,810)	-
Deferred rent	129,200	(14)	(129,200)	-
Total Liabilities	61,527,772		14,531,847	76,059,619
Shareholders' Equity (Deficit)				
Share capital	14,197,070	(13)	(4,589,022)	9,608,048
Contributed surplus	4,471,060	(13)	1,620,579	6,091,639
Reserve for warrants	988,772	(15)	(356,044)	632,728
Accumulated deficit	(40,385,641)		9,533,229	(30,852,412)
Total Shareholders' Equity (Deficit)	(20,728,739)		6,208,742	(14,519,997)
Total Liabilities and Shareholders' Equity (Deficit)	40,799,033		20,740,589	61,539,622

HARBORSIDE INC.

Notes to the Unaudited Restated Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Operations

	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	As Reported	Note 2.1 (16)		As Reported	Note 2.1 (16)	
		Adjustments	As Restated		Adjustments	As Restated
	\$	\$	\$	\$	\$	\$
Retail revenue	9,161,023	(9,161,023)	-	28,672,759	(28,672,759)	-
Wholesale revenue	2,339,734	(2,339,734)	-	3,178,408	(3,178,408)	-
Services and rental revenue - related party	-	5,993,655	5,993,655	-	15,985,256	15,985,256
Gross revenue	11,500,757	(5,507,102)	5,993,655	31,851,167	(15,865,911)	15,985,256
Cost of good sold - retail	(6,309,900)	6,309,900	-	(21,150,027)	21,150,027	-
Cost of good sold - wholesale	(2,387,686)	2,387,686	-	(6,064,487)	6,064,487	-
Cost of revenue	-	(2,348,293)	(2,348,293)	-	(6,100,146)	(6,100,146)
	(8,697,586)	6,349,293	(2,348,293)	(27,214,514)	21,114,368	(6,100,146)
Gross profit before biological assets adjustments	2,803,171	842,191	3,645,362	4,636,653	5,248,457	9,885,110
Change in fair value less cost to sell of biological asset transformation	(579,889)	579,889	-	1,467,796	(1,467,796)	-
Gross profit	2,223,282	1,422,080	3,645,362	6,104,449	3,780,661	9,885,110
Expenses						
General and administrative	5,556,566	(3,241,194)	2,315,372	12,655,475	(4,728,463)	7,927,012
Professional fees	1,309,397	(684,335)	625,062	2,135,061	(392,175)	1,742,886
Share-based compensation	547,547	964,379	1,511,926	3,197,464	1,632,640	4,830,104
Impairment loss	(949,395)	949,395	-	-	-	-
Depreciation and amortization	282,578	59,385	341,963	660,299	171,832	832,131
	6,746,693	(1,952,370)	4,794,323	18,648,299	(3,316,166)	15,332,133
Loss before the undernoted	(4,523,411)	3,374,450	(1,148,961)	(12,543,850)	7,096,827	(5,447,023)
Other Income (Expense)						
Interest expense	(552,263)	100,723	(451,540)	(1,454,978)	(386,030)	(1,841,008)
Fair value change in derivative liabilities	-	(944,383)	(944,383)	-	(2,519,943)	(2,519,943)
Gain on sale of investment	203,049	(203,049)	-	203,049	(203,049)	-
Gain on sale of equipment	9,638	(9,638)	-	44,425	(44,425)	-
Loss on debt extinguishment	-	-	-	-	(4,475,564)	(4,475,564)
Other income (expense)	(289,309)	(1,655)	(290,964)	(261,693)	4,920	(256,773)
Total Other Income (Expense)	(628,885)	(1,058,002)	(1,686,887)	(1,469,197)	(7,624,091)	(9,093,288)
Net loss before Income Taxes	(5,152,296)	2,316,448	(2,835,848)	(14,013,047)	(527,264)	(14,540,311)
Income tax (expense) recovery	-	(38,727)	(38,727)	63,252	(178,666)	(115,414)
Net Loss and Comprehensive Loss	(5,152,296)	2,277,721	(2,874,575)	(13,949,795)	(705,930)	(14,655,725)
Weighted average number of shares Outstanding						
Basic and diluted	21,216,815		14,965,393	12,999,789		9,473,346
Net loss per Share						
Basic and diluted	(0.243)		(0.19)	(1.073)		(1.55)

HARBORSIDE INC.

Notes to the Unaudited Restated Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2019 and 2018 (Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Statement of Changes in Shareholders' Equity

	Share Capital			Contributed Surplus			Accumulated Deficit			Non-Controlling Interest			Total		
	As Reported	See Note 2.1	As Restated	As Reported	See Note 2.1	As Restated	As Reported	See Note 2.1	As Restated	As Reported	See Note 2.1	As Restated	As Reported	See Note 2.1	As Restated
		Adjustments			Adjustments			Adjustments			Adjustments			Adjustments	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Balance, January 1, 2018	110,949	(10,000)	100,949	279,489	(47,500)	231,989	(18,216,975)	5,699,535	(12,517,440)	9,139,504	-	9,139,504	(8,687,033)	5,642,035	(3,044,998)
Adjustment related to the adoption of IFRS 9 - credit loss reserve	-	-	-	-	-	-	(493,740)	-	(493,740)	-	-	-	-	-	(493,740)
Exercise of stock options	13,438	(1)	13,437	-	-	-	-	-	-	-	-	-	13,438	(1)	13,437
Series A Preferred stock dividends	-	-	-	-	-	-	(601,857)	601,857	-	-	-	-	(601,857)	601,857	-
Series A Preferred stock offerings	5,500,000	(5,500,000)	-	-	-	-	-	-	-	-	-	-	5,500,000	(5,500,000)	-
Share issuance costs	(292,119)	292,119	-	-	-	-	-	-	-	-	-	-	(292,119)	292,119	-
Conversion of notes payable and accrued interest to Series A preferred stock	12,304,398	(12,304,398)	-	-	-	-	-	-	-	-	-	-	12,304,398	(12,304,398)	-
Purchase of non-controlling interest by issuance of series B common stock	9,000,000	-	9,000,000	-	-	-	(260,496)	-	(260,496)	(8,739,504)	-	(8,739,504)	-	-	-
Fair value of derivative liability - Series A-1 preferred stock	(11,726,940)	11,726,940	-	-	-	-	-	-	-	-	-	-	(11,726,940)	11,726,940	-
Distribution to non-controlling Interest	-	-	-	-	-	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)	(400,000)
Share-based compensation	-	-	-	3,197,464	1,632,640	4,830,104	-	-	-	-	-	-	3,197,464	1,632,640	4,830,104
Net loss for the year	-	-	-	-	-	-	(13,949,795)	(705,930)	(14,655,725)	(400,000)	400,000	-	(14,349,795)	(305,930)	(14,655,725)
Balance, September 30, 2018	14,909,726	(5,795,340)	9,114,386	3,476,953	1,585,140	5,062,093	(33,522,863)	5,595,462	(27,927,401)	-	-	(15,136,184)	1,385,262	(13,750,922)	

HARBORSIDE INC.

Notes to the Restated Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Expressed in United States Dollars except share amounts)

Unaudited Condensed Interim Consolidated Statement of Cash Flows

	Nine months ended September 30, 2018		
	As Reported	See Note 2.1 Adjustments	As Restated
	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss before non-controlling interest	(13,949,795)	(705,930)	(14,655,725)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	660,299	171,832	832,131
Accretion of interest and debt discount on convertible debentures	297,009	(297,009)	-
Amortization of debt issuance costs	-	46,522	46,522
Change in fair value of biological assets	(1,467,796)	1,467,796	-
Change in fair value of derivative liability	-	2,519,943	2,519,943
Loss on debt extinguishment	-	4,475,564	4,475,564
Stock based compensation	3,197,464	1,632,640	4,830,104
Deferred rent	68,400	(68,400)	-
Accounts receivable - related party	-	(7,633,978)	(7,633,978)
Accounts receivable	(471,299)	471,299	-
Inventories	5,292,248	(5,292,248)	-
Prepaid expenses	(34,536)	(75,148)	(109,684)
Deposits	49,235	1	49,236
Accounts payable and accrued liabilities	(581,242)	1,010,288	429,046
Deferred gain	(28,915)	28,915	-
Accrued interest	-	329,577	329,577
Income tax payable	-	109,014	109,014
Deferred gain on sale of equipment	-	(330,916)	(330,916)
NET CASH USED IN OPERATING ACTIVITIES	(6,968,928)	(2,140,238)	(9,109,166)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	-	(2,059,765)	(2,059,765)
Investments in San Leandro	(429,042)	429,042	-
Additions on property, plant and equipment	(2,246,235)	2,246,235	-
Payments received on notes receivable - related party	-	1,000,075	1,000,075
NET CASH USED IN INVESTING ACTIVITIES	(2,675,277)	1,615,587	(1,059,690)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable, net of loan fees	5,185,500	(18,000)	5,167,500
Payments on notes payable - related party	(1,124,348)	1,124,348	-
Repayments on notes payable	-	(1,234,209)	(1,234,209)
Proceeds from exercise of stock options	13,438	(1)	13,437
Proceeds from Series A preferred stock offering, net of issuance costs	5,207,881	292,119	5,500,000
Distribution to non-controlling interest	(400,000)	-	(400,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	8,882,471	164,257	9,046,728
DECREASE IN CASH	(761,734)	(360,394)	(1,122,128)
CASH, BEGINNING OF PERIOD	2,416,556	(925,944)	1,490,612
CASH, END OF PERIOD	1,654,822	(1,286,338)	368,484

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September 30, 2019 Statements of Financial Position and Operations

- (1) As outlined in Note 4, *Acquisitions*, the Company completed two (2) business acquisitions during the nine months ended September 30, 2019. As part of this process, the Company was required to fair value the assets acquired and liabilities assumed. At the time of the Company's filing of the interim report, the Company had not completed the purchase accounting and related fair value measurements of the assets acquired and liabilities assumed. The adjustments primarily relate to the Company's acquisition of PMACC.
- (2) These adjustments correspond to the Company's restatement of FLRish's December 31, 2018 and 2017 financial statements (the "Prior 2018 Financial Statements") in which a sale and concurrent lease transaction was determined to be a financing arrangement for accounting purposes. Refer to Note 2 section (1) of the 2018 Restated Financial Statements for additional information.
- (3) The Company adopted IFRS 16, *Leases*, on January 1, 2019. At the time of the interim filing, the Company had not completed the initial analysis of the PMACC leases. The impact of the Company's adoption when the Company acquired PMACC and the related leases were excluded from the Company's initial interim financial statements.
- (4) The adjusted balance is due to the Company's recording settlement of the derivative liability related to the Series B conversion features. These were settled as part of the RTO Transaction. Such adjustments were not initially recorded in the previously filed interim financial statements for the six months ended June 30, 2019.
- (5) These adjustments correspond to the Company's restatement of the Prior 2018 Financial Statements for the reclassification of Series A-1 Preferred Shares related fair value of the derivative liability from equity to liability. Further, revaluation adjustments were recorded related to the Company's share-based compensation methodology and valuations and impacted to contributed surplus. Refer to Note 2 sections (2) and (4) of the 2018 Restated Financial Statements for additional information.
- (6) Adjustments of approximately \$390,000 were made to certain of the Company's broker warrants and advisory warrants as part of the Company's restatement of the Prior 2018 Financial Statements. Refer to Note 2 section (3) of the 2018 Restated Financial Statements for additional information. Additional adjustments of \$762,000 were recorded upon the Company's conversion of Series B convertible debt. These were identified as part of the Company's 2019 year-end financial reporting close process.
- (7) The change in accumulated deficit is impacted by current period net loss and the cumulative changes from the Prior 2018 Financial Statements.
- (8) Additional accounting changes were made as part of the Company's reassessment of transactions recorded in earlier interim periods. These adjustments were identified during the Company's accounting analysis on recent acquisitions, the 2018 Restated Financial Statements process, and the 2019 year-end close procedures for related transactions.

December 31, 2018 Statement of Position

- (9) As part of the Company's consolidation procedures for the interim financial statements, the statement of position for PMACC was included in the balance sheet of the 2018 Restated Financial Statements. Related party balances were also removed as part of this consolidation. The Company did not complete the PMACC acquisition until January 7, 2019. Refer to Note 4. Adjustments were made to remove the PMACC account balances and reflect the related party balances prior to the acquisition.

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- (10) The Note Receivable – related party was adjusted to remove an expected credit loss allowance for \$2.1 million as part of the Company’s restatement of the Prior 2018 Financial Statements. Refer to Note 2 section (6) of the 2018 Restated Financial Statements for additional information.
- (11) The term loan with CFP Fund I, LLC and Series B Debentures were adjusted as part of the Company’s restatement of the Prior 2018 Financial Statements to remove the previously recorded discount. Additional adjustments included debt conversion and foreign exchange recalculation value modifications. Refer to Note 2 sections (3) and (5) of the 2018 Restated Financial Statements for additional information.
- (12) The provision for income taxes and related income tax payable were adjusted as part of the Company’s restatement of the Prior 2018 Financial Statements. Refer to Note 2 section (9) of the 2018 Restated Financial Statements for additional information.
- (13) The Accrued Dividends, Series A Liability, Derivative and Warrant Derivative Liabilities, Share Capital, and Contributed Surplus were adjusted as part of the Company’s restatement of the Prior 2018 Financial Statements. Refer to Note 2 section (2) of the 2018 Restated Financial Statements for additional information. Contributed Surplus was also impacted by adjustments related to share-based compensation. Refer to Note 2 section (4) of the 2018 Restated Financial Statements for additional information.
- (14) These adjustments correspond to the Company’s restatement of the Prior 2018 Financial Statements in which a sale and concurrent lease transaction was determined to be a financing arrangement for accounting purposes. Refer to Note 2 section (1) of the 2018 Restated Financial Statements for additional information.
- (15) The Reserve for warrants was adjusted by \$390,000 as part of the Company’s restatement of the Prior 2018 Financial Statements for certain of the Company’s broker warrants and advisory warrants. Refer to Note 2 section (3) of the 2018 Restated Financial Statements for additional information. This adjustment is offset within the previously published interim financial statements by a consolidating entry to remove related party transactions of approximately \$34,000.

September 30, 2018 Consolidated Statements of Loss and Comprehensive Loss

- (16) The adjustments to the September 30, 2018 consolidated statements of loss and comprehensive loss were impacted by the balances included for PMACC as described in (9) above. In addition, the adjustments disclosed in Note 2 of the 2018 Restated Financial Statements further impacted each of the individual line items included in the interim consolidated statements of operations for previously reported 2018 quarterly and year-to-date balances. Refer to Note 2 of the 2018 Restated Financial Statements for additional information.

2.2 Statement of Compliance

The Company’s condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and 2018 were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Certain information and footnote disclosures normally included in the audited annual condensed interim 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. These unaudited restated condensed interim consolidated financial statements should be read in conjunction with the 2018 Restated Financial Statements and were authorized for issuance by the Board of Directors on August 12, 2020.

2.3 Basis of Measurement

These unaudited restated 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

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instruments and biological assets, which are measured at fair value.

These unaudited restated 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.

2.4 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”). Following the completion of the RTO Transaction, the Company determined that the USD still best represents 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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2.5 Basis of Consolidation

These condensed interim consolidated financial statements incorporate the accounts of the Company and its subsidiaries, with ownership at September 30, 2019 and December 31, 2018 as follows:

Company Name	Jurisdiction	September 30, 2019	December 31, 2018
Harborside Inc.	Ontario, Canada	100%	0%
Lakeside Minerals Corp.	Ontario, Canada	100%	0%
Unite Capital Corp.	Ontario, Canada	100%	0%
LGC Holdings USA, Inc.	Nevada, US	100%	0%
LGC Real Estate Holdings, LLC	Nevada, US	100%	0%
LGC Real Estate (Colorado), LLC	Nevada, US	100%	0%
LGC Operations, LLC	Nevada, US	100%	0%
Lineage GCL Oregon Corporation	Oregon, US	100%	0%
LGC LOR DIS 1, LLC	Oregon, US	100%	0%
LGC LOR DIS 2, LLC	Oregon, US	100%	0%
Lineage GCL California, LLC	California, US	100%	0%
Lineage Merger Sub Inc.	Delaware, US	100%	0%
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%	0%
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%	0%
FLRish Farms Cultivation 7, LLC	California, US	100%	0%
FLRish Farms Cultivation 8, LLC	California, US	100%	100%
Patients Mutual Assistance Collective Corporation	California, US	100%	0%
San Jose Wellness Solutions Corp.	California, US	100%	0%
San Leandro Wellness Solutions Inc.	California, US	50%	0%

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. As of September 30, 2019, the Company was deemed to not hold a controlling interest in San Leandro Wellness Solutions Inc. (“SLWS”) and instead accounted for its investment under the equity method (Note 9). 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.

2.6 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

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reviewed periodically, and adjustments are made as appropriate in the period they become known.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2018. As a result of the consolidation of PMACC and SJW on January 7, 2019 (Note 4) and of the RTO Transaction with Lineage on May 30, 2019 (Note 4), there are additional judgments, estimates and assumptions that have significant effects on the amounts recognized in the September 30, 2019 condensed interim consolidated financial statements described as follows:

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 twelve months, after taking into account expected cash flows and the Company's cash position at period-end.

As indicated in Note 17 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 twelve 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

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

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

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

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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 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.

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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.

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.

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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.

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

The same accounting policies are applied in these unaudited restated condensed interim consolidated financial statements as those disclosed in the notes to the 2018 Restated Financial Statements for the year ended December 31, 2018, except as described below:

3.1 Revenue with Customers

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

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

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

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

Dispensary revenue

The Company recognizes revenue from the sale of cannabis for a fixed price upon delivery of goods to customers at

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the point of sale since at this time performance obligations are satisfied.

Cultivation and wholesale revenues

The Company recognizes revenue from the sale of cannabis for a fixed price upon the delivery of cannabis goods. When delivery occurs, the Company has transferred to the buyer the significant risks and rewards of ownership of the goods.

Loyalty program

The Company has an ongoing loyalty points program that allows customers to redeem the points towards additional goods or services at a price that reflects a significant discount from the stand-alone selling price of a product. This program provides a customer with a material right which is accounted for as a separate performance obligation. Management calculates the estimated value of each point redeemable based on the weighted average of the value of the points redeemed and the distribution of the redemption values. The total value of the material right is calculated based on this estimated value of each point and the total number of points earned during the year. Based on the stand-alone selling price allocation, management allocates a portion of the gross sales revenue to the material right. As the points are redeemed, a proportionate amount of material right is recognized as revenue and at year-end the amount of the material right represented by the unredeemed points is carried forward as a liability. As of September 30, 2019, the Company had recorded approximately \$290,000 related to loyalty programs (December 31, 2018 – \$nil).

3.2 Biological Assets

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

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

3.3 Inventories

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

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

3.4 Business Combination

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and

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is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of the assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net identifiable assets acquired. Acquisition costs incurred are expensed to profit or loss.

Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, with the corresponding gain or loss recognized in profit or loss.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

3.5 Property, Plant and Equipment

Property, plant and equipment is measured at cost, net of accumulated depreciation and any impairment losses. Cost includes expenditures that are directly attributable to the asset acquisition. The cost of self-constructed assets includes the cost of materials, direct labor and other costs directly attributable to make the asset available for its intended use, as well as relevant borrowing costs on qualifying assets. During their construction, property, plant and equipment are classified as construction in progress (“CIP”) and are not subject to depreciation. When the asset is available for use, it is transferred from CIP to the relevant category of property, plant and equipment and depreciation commences.

Where particular parts of an asset are significant, discrete and have distinct useful lives, the Company may allocate the associated costs between the various components, which are then separately depreciated over the estimated useful lives of each respective component. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Agricultural buildings	15 years
Agricultural equipment	5 years
Furniture and fixtures	7 years
Vehicles	5 years
Office and computer equipment	3-5 years
Security equipment	5 years
Leasehold improvements	Remaining life of lease

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

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The Company assesses impairment of property, plant and equipment when an impairment indicator arises (e.g. a change in use or discontinued use, obsolescence or physical damage). When the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the asset is tested at the CGU level. In assessing impairment, the Company compares the carrying amount of the asset or CGU to the recoverable amount, which is determined as the higher of the asset or CGU's fair value less costs of disposal and its value-in-use. Value-in-use is assessed based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects applicable market and economic conditions, the time value of money and the risks specific to the asset. An impairment loss is recognized whenever the carrying amount of the asset or CGU exceeds its recoverable amount and is recorded in the consolidated statements of loss and comprehensive loss.

An asset's residual value, useful life and depreciation method are reviewed annually and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. An item of equipment is de-recognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of loss and comprehensive loss in the year the asset is de-recognized.

Assets in process are transferred to the appropriate asset class when available for use and depreciation of the assets commences at that point.

3.6 Intangible Assets and Goodwill

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and any impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite-lived intangible assets is calculated on a straight-line basis over their estimated useful lives. The Company has a trademark which is amortized over its estimated useful life of four years. The Company's licenses were assigned an indefinite life.

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

Goodwill

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

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment annually, and whenever events or circumstances that make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all, or a portion of, a reporting unit. Finite-lived intangible assets are tested whenever there is an indication of impairment.

Goodwill and indefinite-lived intangible assets are tested annually for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. Goodwill is allocated to CGUs or groups of CGUs for impairment testing based on the level at which it is monitored by management, and not at a level higher than an operating segment. Goodwill is allocated to those CGUs or groups of CGUs expected to benefit from the business combination from which the goodwill arose, which requires the use of judgment.

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An impairment loss is recognized for the amount by which the carrying amount of the CGU exceeds its recoverable amount. The recoverable amounts of the CGU's assets are determined based on fair value less costs of disposal. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of a CGU, given the necessity of making key economic assumptions about the future. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying value of assets in the CGU. Any impairment is recorded in profit and loss in the period in which the impairment is identified. A reversal of an asset impairment loss is allocated to the assets of the CGU on a pro rata basis. In allocating a reversal of an impairment loss, the carrying amount of an asset is not increased above the lower of its recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized for the asset in a prior period. Impairment losses on goodwill are not subsequently reversed.

3.7 Provisions

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

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

3.8 Share Capital

Shares

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

Equity units

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

3.9 Loss per Share

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

3.10 Investments in and Advances to Unconsolidated Associates and Joint Ventures

Associates are companies over which Harborside has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence represents the power to participate in the financial and operating policy decisions of the investee but does not represent the right to exercise control or joint control over those policies. A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Investments in associates and joint ventures are accounted for using the equity method and are initially recognized at cost, excluding financial assets that are not in-substance SVS and inclusive of transaction costs. When the Company

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holds marketable securities or derivative financial assets and subsequently obtains significant influence in that investee, the fair value of the financial instruments is reclassified to investments in associates at the deemed cost, with the cumulative unrealized fair value gains or losses in other comprehensive (loss) income, if any, transferred to deficit.

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

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

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3.11 Adoption of New Accounting Policies

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

IFRS 16 – Leases (“IFRS 16”)

Beginning on January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach where prior periods are not restated. The new standard supersedes the requirements in IAS 17 - *Leases*, IFRIC 4 - *Determining whether an Arrangement contains a Lease*, SIC 15 - *Operating Leases – Incentives*, and SIC 27 - *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 provides a new framework for lessee accounting that requires most right of use (“ROU”) assets obtained through operating leases to be capitalized and a related liability to be recorded. IFRS 16 substantially carries forward the accounting requirements for lessors.

The adoption of IFRS 16 results in changes to property lease contracts which were previously classified as operating leases under IAS 17. Upon adoption, lease obligations equal to the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate are recognized. An ROU asset, representing the Company’s right-to-use the underlying leased asset, will generally be equal to the lease obligation at adoption and subsequently depreciated on a straight-line basis.

Payments previously recognized in the consolidated statements of loss and comprehensive loss are replaced by a combination of depreciation on the ROU asset and interest expense on the lease obligations. Depreciation is presented separately in the Company’s consolidated statements of loss and comprehensive loss. Interest expense is classified as interest expense.

On transition to IFRS 16, the Company elected to apply the following practical expedients:

- Using a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- Accounting for operating leases with a remaining lease term of 12 months or less as at the date of initial application as short-term leases;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Not to reassess whether a contract is or contains a lease at the date of initial application.

The impact of this adoption was not material. Refer to Note 12 for additional information.

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

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The IFRIC concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. See Note 17 for further information.

Annual Improvements to IFRS (2015-2017) Cycle

Beginning January 1, 2019, the Company adopted narrow-scope amendments to a total of four standards as part of its annual improvement process. Amendments were made to clarify that a company must remeasure its previously held

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interest in a joint operation when it obtains control of the business in accordance with IFRS 3 - *Business Combinations* but does not remeasure when it obtains joint control of the business under IFRS 11 - *Joint Arrangements*. The amendments also include clarification that all income tax consequences of dividend payments should be recognized consistently with the transactions that generated the distributable profits, under IAS 12 - *Income Taxes* and that under IAS 23 - *Borrowing Costs*, any specific borrowing that remains outstanding after the related asset is ready for its intended use or sale becomes part of general borrowings. The Company adopted these amendments prospectively in its condensed interim consolidated financial statements for the annual period beginning January 1, 2019. The adoption of these standards did not have a material impact on the condensed interim consolidated financial statements.

3.12 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 impacts are expected upon the adoption of the following new standards:

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

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

Conceptual Framework

On March 29, 2018, the IASB issued its revised Conceptual Framework for Financial Reporting. The revised Conceptual Framework does not constitute a substantial revision from the previously effective guidance, but does provide additional guidance on topics not previously covered, such as presentation and disclosure. This amendment is effective on January 1, 2020. The Company intends to adopt 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 is not expected to have a material impact on the condensed interim consolidated financial statements.

Definition of a Business

On October 22, 2018, the IASB issued a narrow scope amendment to IFRS 3. This amendment narrowed and clarified the definition of a business, as well as permitted a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. This amendment is effective on January 1, 2020 and is to be applied prospectively. The Company intends to adopt the amendment to IFRS 3 in its condensed interim consolidated financial statements for the annual period beginning January 1, 2020. The adoption of the amendment to IFRS 3 is not expected to have a material impact on the condensed interim consolidated financial statements.

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4. Acquisitions

The Company completed two business acquisitions during the nine months ended September 30, 2019. The acquisitions of PMACC and SJW, and the RTO Transaction noted below, were accounted for in accordance with IFRS 3.

A summary of business acquisitions completed during the nine months ended September 30, 2019 is as follows:

Acquisition Date	PMACC/SJW	Lineage RTO	Total
	January 7, 2019	May 30, 2019	
Fair Value of Consideration Paid			
Cash	\$ -	\$ -	\$ -
Fair value of:			
Debt assumed/settled	27,749,246	1,576,342	29,325,588
Share capital issued	13,288,090	11,016,549	24,304,639
Options issued	-	128,305	128,305
Warrants issued	-	94,186	94,186
Contingent Consideration	-	1,750,386	1,750,386
Total Consideration	\$ 41,037,336	\$ 14,565,768	\$ 55,603,104

Consideration Paid	PMACC/SJW	Lineage RTO	Total
	\$ 41,037,336	\$ 14,565,768	\$ 55,603,104
Fair value of net assets acquired:			
Cash	2,129,223	210,143	2,339,366
Accounts receivable	629,170	61,243	690,413
Biological assets	615,075	-	615,075
Inventories	2,854,662	84,101	2,938,763
Prepaid expenses	547,439	19,544	566,983
Investments and advances to unconsolidated affiliates	1,212,807	2,305,931	3,518,738
Property and equipment	1,165,436	-	1,165,436
Right-of-use assets	1,491,113	163,736	1,654,849
Intangible assets - licenses	51,800,000	239,970	52,039,970
Intangible assets - trademark	-	113,899	113,899
Deferred tax asset	-	107,399	107,399
Other assets	13,123	-	13,123
Accounts payable and accrued expenses	(6,787,382)	(699,756)	(7,487,138)
Derivative liabilities	-	(126,358)	(126,358)
Operating lease liabilities	(2,552,456)	(167,734)	(2,720,190)
Provisions	(34,176,000)	-	(34,176,000)
Convertible notes payable	-	(690,247)	(690,247)
Income tax payable	-	(39,727)	(39,727)
Deferred tax liability	(15,814,865)	(117,015)	(15,931,880)
Total Identifiable Net Assets	3,127,345	1,465,129	4,592,474
Goodwill	37,909,991	13,100,639	51,010,630
Net Assets Acquired	\$ 41,037,336	\$ 14,565,768	\$ 55,603,104

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Had these acquisitions been made as of the beginning of the 2019 annual reporting period, Harborside's consolidated revenue and loss for the three and nine months ended September 30, 2019 would have been as shown below:

	<u>Net Revenue</u>	<u>Net Loss</u>
For the three months ended September 30, 2019:		
As reported	\$ 12,891,009	\$ (1,943,496)
Pro forma impact for:		
PMACC/SJW	-	-
Lineage RTO	-	-
Pro forma	<u>\$ 12,891,009</u>	<u>\$ (1,943,496)</u>
For the nine months ended September 30, 2019:		
As reported	\$ 36,030,160	\$ (4,496,151)
Pro forma impact for:		
PMACC/SJW	934,523	(309,780)
Lineage RTO	526,347	(547,676)
Pro forma	<u>\$ 37,491,030</u>	<u>\$ (5,353,607)</u>

A. Acquisition of PMACC and SJW

PMACC is a California company that was incorporated on August 28, 2005. PMACC's primary activity is the cultivation and dispensing of cannabis to eligible individuals pursuant to state and local law. SJW is a California corporation that was organized on November 17, 2009. SJW began doing business in 2012 as a compliant medical cannabis dispensary in San Jose, California under the Harborside brand. PMACC and SJW were owned by the same shareholders, each shareholder owning 50% of the respective entities, and were related parties of Harborside until they were acquired by Harborside in January 2019. Though PMACC, SJW and Harborside were related parties prior to the acquisition, the acquisition was not a common control transaction and the IFRS 3 scope exception therefore does not apply.

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

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

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

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Pursuant to the RTO Transaction, Lineage and FLRish agreed to exercise the Merger Option relating to PMACC under the Merger Option Agreements to purchase 100% of each of PMACC and SJW after the RTO Transaction, whereby the Company obtained legal control over PMACC and SJW and the shares were issued to the former shareholders of PMACC and SJW.

On January 7, 2019, as a result of the exercise of the Merger Option granted under the Merger Option Agreements to acquire PMACC, the Company also indirectly acquired a 50% ownership interest in SLWS, an entity formed on September 28, 2015 as a premier indoor clone cultivator, with the intention of launching a cannabis dispensary in San Leandro, California. The Company estimated the fair value of this investment on January 7, 2019 using a discounted cash flow method to arrive at an indicated fair value of the business, adjusted for debt, to arrive at an estimated value of total equity, upon which the 50% ownership interest, a 10% discount for lack of control and a 23% discount for lack of marketability was applied to arrive at the fair value estimate of the 50% equity investment. The fair value of the investment was \$160,000. In addition, SLWS owed PMACC \$1,057,807, which has been recorded at carrying value as of January 7, 2019. In October 2019, the Company purchased the remaining 50% ownership in SLWS, making it a wholly-owned subsidiary of PMACC. See Note 30 for additional details.

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

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

- i. computed the probability-weighted Series B Common Share value across six initial public offerings (“IPO”) scenarios yielding a weighted average range of implied exit prices for the Series B Common Share of \$6.77 to \$8.56 per share across the scenarios;
- ii. constructed an option pricing model analysis to estimate the value for the other non-IPO scenarios by benchmarking to the 2018 Private Placements to calculate the implied equity value of the Company using the option-pricing method of allocation and;
- iii. weighted the concluded stock values under each method based on management’s best estimates of the probability of an IPO at 50%/50% IPO/non-IPO as of October 31, 2018 and 60%/40% IPO/non-IPO as of January 7, 2019.

A severance agreement with one of the former owners of PMACC and SJW was signed concurrent with the Merger Option Agreements and was effective immediately. This amount was not deemed to be part of the consideration paid in the acquisition. Approximately \$600,000 of severance was expensed in the accompanying condensed interim consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2019.

The estimated fair value of acquired intangible assets includes approximately \$51.8 million for cannabis licenses to

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

The accompanying condensed interim consolidated statements of loss and comprehensive loss for the three and nine months ended September 30, 2019 includes net revenue of \$12.4 million and \$35 million, respectively, and net loss of \$3.1 million and \$10 million, respectively, of PMACC and SJW since the January 7, 2019 acquisition date.

B. RTO Transaction

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

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

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

- (i) 2,887,781 SVS, having an estimated fair value of \$11,016,549 based on the fair value of shares issued in connection with closing of the RTO Transaction, inclusive of 1,070,670 SVS issued on conversion of the Series A Special Shares (as defined in Note 18) and 1,817,340 SVS issued in exchange for the Lineage Common Shares (as defined below) (See Note 18).
- (ii) 134,232 options to acquire SVS, having an estimated fair value of \$128,305 determined based on a Black-Scholes option pricing model which incorporated the following assumptions: implied share price – \$3.81 (C\$5.15) per share based on the Concurrent Offering, consolidation-adjusted exercise price of \$3.10 to \$7.74 (C\$4.18 to \$10.45), expected dividend yield – 0%, expected volatility – 90%, risk-free interest rate – 1.47% to 1.52% and expected life of 0.25 to 4.55 years. In making the assumptions for expected volatility, the Company used the estimated average volatility of comparable companies in the cannabis industry.
- (iii) 308,662 warrants to acquire SVS, having an estimated fair value of \$94,186 determined based on a Black-Scholes option pricing model which incorporated the following assumptions: implied share price – \$3.81 (C\$5.15) per share, consolidation-adjusted exercise price of \$7.74 to \$10.07 (C\$10.45 to \$13.59), expected dividend yield – 0%, expected volatility – 90%, risk-free interest rate – 1.71% and an expected life of 0.65 to 0.72 years. In making the assumptions for expected volatility, the Company used the estimated average volatility of comparable companies in the cannabis industry.
- (iv) The effective settlement of a pre-existing relationship related to the bridge loan payable to Harborside by Lineage of \$1,576,342.
- (v) The contingent consideration in the amount of \$1,750,386, classified under shareholders' equity, is related to the stock dividend declared by Lineage to the holders of its common shares (the "Lineage Common Shares") as at the record date of May 23, 2019, through the issuance of 11,513,533 series B special shares of Lineage (the "Series B Special Shares") and 14,072,120 series C special shares of Lineage (the "Series C Special Shares"). Pursuant to the merger agreement between Harborside Inc., FLRish, Inc., and Lineage Merger Sub, Inc., entered into on February 8, 2019 and as amended on April 17, 2019 (the "Merger Agreement"), the Series B Special Shares would be automatically converted into one Lineage Common Share upon the completion of the acquisition by the Company of Lucrum Enterprises Inc. (the "LUX Acquisition"), d/b/a LUX Cannabis Dispensary ("LUX") (See Note 9). Similarly, the Series C Special Shares would be converted into one Lineage Common Share upon the completion of the acquisition of Walnut Oaks, LLC (the "Agris Acquisition") d/b/a Agris Farms ("Agris Farms") (See Note 9). In both instances, the conversion would not require the payment of additional consideration or any further action from the holder. If the LUX

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Acquisition was terminated by the Company other than for failure to receive regulatory approval prior to the 180th day after the completion of the RTO Transaction, the discovery of an undisclosed material adverse effect of at least 10% of the total applicable purchase price, or the amount of the consideration for the purchase being in excess of the amounts set forth in the Merger Agreement, each Series B Special Share will be automatically converted to one Lineage Common Share on the date of the termination of the acquisition. If the Agris Acquisition was terminated other than for the same aforementioned reasons, each Series C Special Share will be automatically converted to one Lineage Common Share on the date of the termination of the acquisition. Both Series B Special Shares and Series C Special Shares have an automatic redemption clause (price of C\$0.000001) that will be triggered unless all of the Series B Special Shares and Series C Special Shares have otherwise been converted on or prior to 180 days from the closing of the RTO Transaction.

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

As of December 31, 2019, the Company had not completed either of the acquisitions. The time limit of 180 days since the RTO Transaction for the automatic redemption clause lapsed as of November 26, 2019. As the time period of 180 days had lapsed, the Series B Special Shares and Series C Special Shares are considered to have been automatically redeemed and cancelled at a redemption price of C\$0.000001 per share. Per IFRS 3, contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.

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

The accompanying unaudited restated condensed interim statements of loss and comprehensive loss for the three and nine months ended September 30, 2019 includes revenue of \$0.4 million and \$0.6 million, respectively, and net loss of \$1.9 million and \$2 million, respectively, of Lineage since the closing date of the RTO Transaction.

5. Accounts Receivable

The Company's accounts receivable are comprised of the following at September 30, 2019:

	<u>September 30, 2019</u>
Trade receivables	\$ 1,448,702
Sales tax receivables	122,914
Total	1,571,616
Less allowance for credit loss	-
Total accounts receivable	<u>\$ 1,571,616</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

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from debit card processors were collected after year-end.

There were no accounts receivable as at December 31, 2018, other than with related parties, as disclosed.

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.

Based on the Company's assessment, there was no allowance for credit losses recorded as at September 30, 2019. The Company's aging of accounts receivable is as follows at September 30, 2019:

	<u>September 30, 2019</u>
Current	\$ 519,604
1 – 30 days	589,288
31– 60 days	272,335
61 – 90 days	-
Over 90 days	190,389
Total	<u>\$ 1,571,616</u>

6. Inventories

The Company's inventory includes both purchased items and internally produced inventory. The Company's inventory is comprised of the following items at September 30, 2019:

	<u>September 30, 2019</u>
Raw Materials	\$ 184,465
Work-in-Process	290,949
Finished Goods	2,180,211
Total Inventory	<u>\$ 2,655,625</u>

During the three and nine months ended September 30, 2019, inventory expensed to cost of goods sold was \$7,930,705 and \$22,848,986, 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 and nine months ended September 30, 2019, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of \$44,375 and \$237,014, which is recorded as a component of the costs of goods wholesale. During the three months ended September 30, 2019, the Company realized \$89,260 of impairment previously recorded due to the inventory being sold.

There was no inventory as at December 31, 2018.

7. Biological Assets

Biological assets consist of cannabis plants. The changes in the carrying value of biological assets are as follows for the nine months ended September 30, 2019:

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	September 30, 2019
Balance at beginning of period	\$ -
Acquired as part of business combination (Note 4)	615,075
Costs capitalized	6,832,934
Change in fair value less cost to sell due to biological transformation	(3,169,441)
Transferred to inventory upon harvest	(3,084,448)
Balance at end of period	\$ 1,194,120

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 September 30, 2019 include \$1,026,200 of depreciation expense incurred in the period.

The Company did not have biological assets as at December 31, 2018.

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 September 30, 2019	
		Input	10% change
i	Weighted average of expected loss of plants until harvest [a]	8%	\$ 10,378
ii	Expected yields (dry grams of cannabis per plant) [b]	80 grams	\$ 119,412
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	58%	\$ 119,412
iv	Estimated selling price (per gram) [c]	\$1.86 per gram dried flower \$0.30 per gram dried trim	\$ 254,871
v	After harvest cost to complete and sell (per gram)	\$0.95 per gram dried flower \$0.19 per gram dried trim	\$ 135,459

[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 September 30, 2019, it was expected the Company's biological assets would yield 35 grams of dried flower per plant and 45 grams of dried trim per plant.

[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 September 30, 2019, it is expected that the Company's biological assets will yield approximately 2,033,884 grams of dry cannabis flower and 2,595,015 grams of dry trim when harvested. The fair value adjustments on biological assets are presented separately on the consolidated statements of loss and comprehensive loss.

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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.

8. Prepaid Expenses

As of September 30, 2019 and December 31, 2018, prepaid expenses were comprised of the following:

	September 30, 2019	December 31, 2018
Insurance and rent	\$ 395,699	\$ 23,584
Advances made to suppliers and consultants	206,967	46,000
Excise taxes	365,256	-
Payroll and income taxes	310,233	-
Taxes and fees	135,831	-
Other	80,670	-
Total Prepaid Expenses	\$ 1,494,656	\$ 69,584

9. Investments and Advances

The changes in investments and advances are as follows for the nine months ended September 30, 2019:

	Investments	Investments	Advances	Total
	Equity Method	FVTPL		
Balance as at December 31, 2018	\$ -	\$ -	\$ -	\$ -
Acquired as part of business combination Note 4	160,000	238,128	3,120,610	3,518,738
Additions Note 9 (c&d)	-	-	1,860,762	1,860,762
Interest accrued Note 9 (a)	-	-	27,288	27,288
Share of net income/(loss) Note 9 (a)	(160,000)	-	-	(160,000)
Impairment recorded for Lineage Note 9 (b)	-	(238,128)	(338,332)	(576,460)
Impairment recorded Note 9 (b)	-	-	(1,000,000)	(1,000,000)
Balance as at September 30, 2019	\$ -	\$ -	\$ 3,670,328	\$ 3,670,328

(a) San Leandro Wellness Solutions, Inc. (SLWS)

On January 7, 2019, the Company acquired a 50% interest in SLWS valued at \$160,000 as part of the PMACC/SJW business combination (Note 4).

The 50% investment was subsequently accounted for under IAS 28 – *Investments in Associates and Joint Ventures*. For the period January 7, 2019 to September 30, 2019, PMACC's share of the loss from operations of SLWS was \$160,000, reducing the carrying value of the investment on September 30, 2019 to \$0.

In addition to the investment in SLWS on January 7, 2019, SLWS previously had a receivable from PMACC for \$1,052,807 that was acquired as part of the net assets acquired in the PMACC/SJW acquisition. From January 7, 2019 to September 30, 2019, the Company advanced funds to SLWS to assist with finalizing the construction project for the dispensary. The Company had an outstanding advances receivable from SLWS of \$860,762 on September 30, 2019.

(b) 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) (see Note 4). As the former Lineage management was in negotiations with the seller at the time of the RTO Transaction with the expectation that the LUX

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Acquisition was to close shortly after the RTO Transaction, it was assessed that no additional impairment was needed at the time. 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 LUX Acquisition. 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 June 30, 2019, the Company had advanced total funds of \$1.8 million to Altai, comprised of:

- i. Total advances of \$1,050,000; and
- ii. Funds of \$750,000 in the form of two 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.

All fund advances were prior to the RTO Transaction.

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

Though the Company hopes to close the LUX Acquisition, there is currently uncertainty with respect to the ultimate outcome and timing.

(c) Walnut Oaks, LLC

On May 30, 2019, as part of the RTO Transaction the Company acquired from Lineage advances and an investment for approximately 6.53% of a membership interest, in relation to a Membership Interest Purchase Agreement (the "Agris Agreement") to acquire a 100% ownership interest in California-based Agris Farms (Note 4). The advances were recorded at an estimated fair value of \$338,340, and the total investments made to Agris Farms were recorded at a fair value of \$238,128 on the date of acquisition. The fair value was measured based on Lineage's membership interest percentage of Agris Farms' enterprise value, which was calculated at \$3,648,880, being the difference between the purchase price and the amount of liabilities assumed (see terms below).

On November 20, 2018, the Company, through Lineage GCL California, entered into the Agris Agreement in pursuant to the Agris Acquisition.

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

- (a) An amount of \$2,148,880 payable on closing by the issuance of the Company's SVS at a price of C\$6.90 per SVS;
- (b) The assumption of liabilities in the aggregate amount of \$2,951,120, which is to be settled as follows:

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- (i) \$451,120 payable in cash which had been paid;
 - (ii) \$1,000,000, convertible on closing into the Company's SVS at a price of C\$6.90 per SVS and/or MVS at a price of C\$690.00 per MVS; and
 - (iii) \$1,500,000 which, upon closing, the Company will assume as a subordinate note owing to a third-party lender who will be granted a put option by Harborside in favor of the holder where the note holder can choose to convert the subordinate note into 251,087 units of one SVS and one half of a warrant to acquire SVS at a conversion price of C\$7.945 per unit with the full warrant exercisable into a SVS at an exercise price of C\$10.45 (or 2,510 units of one MVS and one half of a warrant to acquire MVS at a conversion price of C\$794.50 per unit with the full warrant exercisable into a MVS at an exercise price of C\$1,045.00) On closing, the third-party will have a general security interest over all assets of Agris Farms.
- (c) A cash investment into Agris Farms in the amount of \$1,500,000, of which \$238,128 was subscription for the purchase of 698.17 membership units (approximately 6.53%) of Agris Farms and the excess of \$1,261,872 as advances. The advances had previously been written down by Lineage prior to completion of the RTO Transaction, as their recoverability was uncertain.

The sellers may also be entitled to receive an additional earn-out payment equal to six (6) times any earnings before interest, taxes, depreciation, and amortization ("EBITDA") in excess of \$1.1 million.

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

(d) Airfield Supply Company

On April 23, 2019, Harborside entered into a definitive stock purchase agreement with Airfield Supply Company ("Airfield") and its owner pursuant to which, among other things, the Company would acquire 100% of the outstanding capital stock of Airfield (the "Airfield Transaction") for a purchase price that is based on the following formula: an average of (x) 1.3x Airfield's revenue and (y) 7x Airfield's EBITDA, in each case of the period commencing April 1, 2018 through March 1, 2019. As part of the negotiations, the Company paid a \$1,000,000 non-refundable deposit.

In August 2019, management determined that the Company would not proceed with the Airfield Transaction, in light of the substantial cash component of the purchase price, which management has determined is not in the best interests of shareholders. As a result, the Company recorded an impairment loss of \$1,000,000 on a non-refundable deposit in relation to the Airfield Transaction.

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10. Property, Plant and Equipment

Changes in the Company's property, plant and equipment consisted of the following for the nine months ended September 30, 2019 and the year ended December 31, 2018:

	Land	Agricultural buildings	Agricultural equipment	CIP	Furniture and fixtures	Vehicles	Office, computer and security equipment	Leasehold improvements	TOTAL
At Cost									
As at December 31, 2017	\$ 3,404,572	\$ 2,816,892	\$ 802,457	\$ 8,358,892	\$ 40,654	\$ -	\$ 720,719	\$ 2,572	\$ 16,146,758
Additions	-	2,333,719	2,810,299	1,171,327	-	-	4,855	-	6,320,200
Disposals	-	-	-	(240,001)	-	-	-	-	(240,001)
Reclass on Completed Phase of Construction	-	-	-	(3,267,910)	-	-	-	-	(3,267,910)
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	-	2,430,211	1,788,741	52,339	8,052	-	18,138	257,599	4,555,080
Business acquisition	-	-	-	7,500	-	29,530	1,128,406	-	1,165,436
Reclass on Completed Phase of Construction	-	-	-	(935,638)	-	-	-	-	(935,638)
As at September 30, 2019	\$ 3,404,572	\$ 7,580,822	\$ 5,401,497	\$ 5,146,509	\$ 48,706	\$ 29,530	\$ 1,872,118	\$ 260,171	\$ 23,743,925
Accumulated depreciation									
As at December 31, 2017	-	247,148	178,110	-	7,307	-	113,933	28	546,526
Depreciation expense	-	442,421	567,815	-	5,807	-	159,975	172	1,176,190
As at December 31, 2018	-	689,569	745,925	-	13,114	-	273,908	200	1,722,716
Depreciation expense	-	377,801	582,131	-	4,356	8,824	168,209	85,068	1,226,389
As at September 30, 2019	\$ -	\$ 1,067,370	\$ 1,328,056	\$ -	\$ 17,470	\$ 8,824	\$ 442,117	\$ 85,268	\$ 2,949,105
Net Book Value									
As at December 31, 2017	3,404,572	2,569,744	624,347	8,358,892	33,347	-	606,786	2,544	15,600,232
As at December 31, 2018	3,404,572	4,461,042	2,866,831	6,022,308	27,540	-	451,666	2,372	17,236,331
As at September 30, 2019	\$ 3,404,572	\$ 6,513,452	\$ 4,073,441	\$ 5,146,509	\$ 31,236	\$ 20,706	\$ 1,430,001	\$ 174,903	\$ 20,794,820

Depreciation expense of \$409,827 and \$1,226,389 was recorded for the three and nine months ended September 30, 2019, respectively, of which \$354,386 and \$1,029,200 was included in cost of goods sold for the three and nine months ended September 30, 2019, respectively. Depreciation expense of \$341,963 and \$832,131 was recorded for the three and nine months ended September 30, 2018, respectively, none of which was included in cost of goods sold.

11. Intangible Assets and Goodwill

During the nine months ended September 30, 2019, the Company acquired \$52.1 million of intangible assets and recognized \$51,010,630 of goodwill as a result of its acquisitions (Note 4). The Company has assigned a finite life of four years to its trademark and an indefinite life to its licenses and goodwill.

A reconciliation of the beginning and ending balances of intangible assets and goodwill for the nine months ended September 30, 2019 is as follows:

At Cost	Intangible Assets			
	Licenses	Trademark	Total	Goodwill
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
Total additions	52,039,970	113,899	52,153,869	51,010,630
Balance as of September 30, 2019	\$ 52,039,970	\$ 113,899	\$ 52,153,869	\$ 51,010,630

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12. 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. On January 1, 2019, 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. The Company has elected not to restate comparative figures in accordance with the transitional provisions in the standard. 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. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. The Company did not recognize any right-of-use assets or lease liabilities as of January 1, 2019.

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

	Right of Use Asset - Buildings
Cost	
Balance at January 1, 2019	\$ -
Additions:	
Acquisition of PMACC & SJW (Note 4)	1,491,113
Lineage RTO Transaction (Note 4)	163,736
At September 30, 2019	\$ 1,654,849
Accumulated amortization	
Balance at Jan 1, 2019	\$ -
Amortization Expense	452,194
At September 30, 2019	\$ 452,194
Net book value	
At January 1, 2019	-
At September 30, 2019	\$ 1,202,655

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 PMACC and SJW acquisitions), the weighted average of which is 15.00%. In the initial application of the standard, the Company used the following practical expedients:

- using a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on previous assessments of whether leases are onerous,
- accounting for operating leases with a remaining lease term of 12 months or less as at the date of initial application as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application,
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease, and
- not to reassess whether a contract is or contains a lease at the date of initial application.

The Company has no operating lease commitments as at December 31, 2018 or lease liabilities recognized as at January 1, 2019.

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The following is a summary of the activity in the Company's lease liability for the nine months ended September 30, 2019:

	September 30, 2019
Acquired lease liabilities (Note 4)	\$ 2,720,190
Lease payments	(529,005)
Interest expense	280,590
Ending lease liability	\$ 2,471,775
Less: current portion	(325,256)
Non-current lease liability	\$ 2,146,519

The Company recognized no expenses related to short-term leases and leases of low-value assets for the three-month and nine-month periods ended September 30, 2019.

The maturity of contractual undiscounted lease obligation payments are as follows:

Due within one year	\$ 834,482
Due within one to five years	2,568,045
Due after five years	-
Total	\$ 3,402,527

13. 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 September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Accounts payable	\$ 8,762,062	\$ 1,720,093
Accrued liabilities	3,852,427	1,033,104
Accrued payroll	1,744,651	450,290
Series B Payable	-	1,776,646
Total accounts payable and accrued liabilities	\$ 14,359,140	\$ 4,980,133

As part of the October 2018 offering of the Series B Debentures (Note 15), the Company oversubscribed the round of funding. The additional proceeds were held in a trust account and are reflected within Accounts Payable and Accrued Liabilities as of December 31, 2018. The funds were released from the trust account and included in the Series B Debenture offering that was completed in February 2019.

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14. Notes Payable

As of September 30, 2019, notes payable consisted of the following:

		September 30, 2019	December 31, 2018
Term loan	(a)	\$ -	\$ 1,780,000
Financing arrangement	(b)	10,074,726	9,709,474
Total notes payable		<u>\$ 10,074,726</u>	<u>\$ 11,489,474</u>
Net amount		\$ 10,074,726	\$ 11,489,474
Less notes payable, current portion		-	(1,780,000)
Notes payable, net of current portion		<u>\$ 10,074,726</u>	<u>\$ 9,709,474</u>

(a) Term Loan

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

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

The terms of the CFP Settlement Agreement provide that FLRish shall pay to CFP the outstanding principal balance at December 17, 2018 as follows: \$2,000,000 payable in monthly installments ending in September 2019 and issuance of 8,624 Series B Debenture Units on the same terms as those offered in the 2018 Private Placements. An initial payment of \$220,000 was made the date the Company entered the CFP Settlement Agreement. The CFP Settlement Agreement also provides a 0% annual interest rate for the remaining monthly installments. The Company recorded a gain on extinguishment of \$150,000 for the settlement of principal amounts outstanding with equity shares in 2018. As of December 31, 2018, the principal balance was \$1,780,000 and was classified as current.

On July 26, 2019, the CFP Loan was repaid in full. During the nine months ended September 30, 2019, a total amount of \$1,780,000 was paid to repay the CFP Loan.

(b) Financing Arrangement

On July 14, 2017, the Company entered into a sales transaction with 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

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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 \$9.1 million initially received as part of the agreement. Payments are applied over the term the Lease, with the Company exercising their \$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.

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 \$994,726 at September 30, 2019 and \$629,474 as of December 31, 2018.

A reconciliation of the beginning and ending balances of notes payable for the nine months ended September 30, 2019 and the year ended December 31, 2018 is as follows:

	September 30, 2019	December 31, 2018
Balance at the beginning of the period	\$ 11,489,474	\$ 25,870,342
Cash additions	-	5,400,000
Cash payments	(1,780,000)	(1,694,097)
Foreign exchange gain	-	(48,324)
Series B debentures conversion- CFP	-	(6,433,420)
Interest accruals	978,152	3,071,265
Series A conversion	-	(12,304,398)
Share issuance costs	-	(232,500)
Interest cash payments	(612,900)	(2,139,394)
Balance at end of period	\$ 10,074,726	\$ 11,489,474

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15. Convertible Debentures

Series B Convertible Debentures

A reconciliation of the beginning and ending balances of the Series B Debenture Units as of September 30, 2019 and December 31, 2018 is as follows:

	September 30, 2019	September 30, 2019
Balance, beginning of the period	\$ 16,036,285	\$ -
Cash Additions	1,857,165	26,410,135
Series B debentures conversion- CFP	-	6,433,420
Derivative Component of Debt	(241,301)	(15,852,898)
Foreign exchange gain, net	130,824	(664,472)
Interest Accretion	3,101,202	1,184,686
Series B common stock for Interest	-	(407,881)
Issuance of Broker Warrants	-	(350,060)
Cash Paid for Debt Issuance Costs	-	(716,645)
Conversion on RTO	(20,884,175)	-
Balance, end of the period	\$ -	\$ 16,036,285

In October 2018, the Company completed the initial closing of the 2018 Private Placements, with the issuance and sale of 6,212 Series B Debenture Units for aggregate gross proceeds of \$4,706,417 (CAD \$6,212,000). On November 16, 2018, the Company completed the second closing of the 2018 Private Placements with the issuance and sale of 28,566 Series B Debenture Units, for aggregate gross proceeds of \$21,703,718 (CAD \$28,566,000). On February 6, 2019, the Company issued an additional 2,450 Series B Debenture Units (the “February 2019 Private Placement”) for gross proceeds of \$1,857,165 (CAD \$2,450,000). These funds were advanced to the Company in 2018 and were included in accounts payable (Note 13) until the Company increased the permitted amount in the Convertible Note Indenture to be issued in 2019.

Pursuant to an agency agreement dated October 30, 2018, as amended on February 4, 2019, Foundation Markets Inc. (“FMI”), a related party to the Company post-RTO Transactions, agreed to act as agent in connection with the issuance and sale of the Series B Debenture Units issued and sold to non-U.S. purchasers pursuant to the 2018 Private Placements and the February 2019 Private Placement. FMI received a cash commission of \$754,694 (CAD \$992,154) equal to 7% of the aggregate proceeds of the 2018 Private Placements and the February 2019 Private Placement, and 168,303 broker warrants valued at \$350,060 in consideration for acting as agent in connection with the 2018 Private Placements (the “Broker Warrants”).

In addition, on December 17, 2018, the Company agreed to issue 8,624 Series B Debenture Units to CFP in relation to the CFP Settlement Agreement, worth \$6,433,420 (CAD \$8,624,000). Each Series B Debenture Unit is comprised of CAD \$1,000 principal amount of 12.0% unsecured convertible debentures (“Series B Debentures”) and 87 share purchase warrants (“Series B Warrants”).

The Series B Debentures are governed by a debenture indenture dated as of October 30, 2018 (the “Debenture Indenture”), as amended by the first supplemental indenture dated February 6, 2019, between FLRish and Odyssey Trust Company, as debenture trustee. The Series B Debentures mature on October 30, 2021 (the “Maturity Date”), and bear interest at a rate of 12.0% per annum, payable, semi-annually in arrears. At the Company’s option, interest will be payable in cash or by issuing Series B Common Shares of FLRish (“Underlying Shares”) at a price of CAD \$6.90 per share without further action on the part of the holders of the Series B Debentures.

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The Series B Warrants are governed by a trust indenture dated as of October 30, 2018, as amended by the first supplemental warrant indenture dated February 6, 2019 (the “Warrant Indenture”), between FLRish and Odyssey Trust Company, as warrant agent. The Series B Warrants expire on October 30, 2020, subject to adjustment and/or acceleration in certain circumstances, and have an exercise price of CAD \$8.60. As part of the 2018 Private Placements, the February 2019 Private Placement, and the issuance of the Series B Debenture Units pursuant to the CFP Settlement Agreement, the Company issued 3,025,686, 213,150 and 750,288 Series B Warrants, respectively.

Each Series B Debenture Unit contains a conversion feature and a warrant. The conversion feature and warrants do not meet equity classification, as they contain contractual terms that result in a potential adjustment in the conversion price and the conversion price and exercise price of the warrants issued are denominated in a currency other than the Company’s functional currency.

In failing the equity classification, the conversion feature and warrants were accounted for as embedded derivative liabilities as their fair value is affected by changes in the fair value of the Company’s SVS (Note 15). The effect is that the Series B Debenture host debt instrument is accounted for at amortized cost, with the embedded derivative liabilities being measured at fair value with changes in value being recorded in profit or loss.

Immediately prior to the RTO Transaction, the Series B Debenture Units of \$20,884,175 including accrued interest were converted into Series B Common Shares. Each Series B Common Share was exchanged for 1/100 of an MVS upon the closing of the RTO Transaction. Refer to Note 18 for accounting implications on conversion features. The Warrants are outstanding as of September 30, 2019 (Note 16).

Secured Convertible Notes

On August 29, 2018, Lineage acquired Rosebuds Bakery, LLC d/b/a Terpene Station and Brooklyn Holding Co. d/b/a Terpene Station Portland, an Oregon-based cannabis retailer engaged in the selling of cannabis products (together, the “Terpene Acquisition”). As consideration paid for the Terpene Acquisition, Lineage issued secured convertible promissory notes (the “Secured Convertible Notes”) to the seller in the aggregate amount of \$800,000, issued in two (2) separate notes with principal amounts of \$400,000 each. As part of the RTO Transaction, the Company assumed the Secured Convertible Notes. The Secured Convertible Notes are convertible at the option of the holder, into SVS at a conversion price of CAD \$0.35 per share (unadjusted for the Consolidation). Interest will accrue on the principal amount at 12% per annum until the earlier of (a) repayment in full of the Secured Convertible Notes or (b) on conversion.

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

- (i) \$150,000 payable on the first anniversary of the Secured Convertible Notes (“First Payment Due Date”), if the conversion option is not exercised 30 days before the First Payment Due Date (paid on October 29, 2019);
- (ii) \$150,000 payable on the second anniversary of the Secured Convertible Notes (“Second Payment Due Date”), if the conversion option is not exercised 30 days before the Second Payment Due Date; and
- (iii) The balance on the third anniversary of the Secured Convertible Notes, if the Conversion Option is not exercised 30 days before the three (3) year anniversary of the Secured Convertible Notes.

The Secured Convertible Notes, and the portion related to the conversion feature, are classified as liabilities. The conversion feature does not meet equity classification, as there are contractual terms that result in the potential adjustment of the conversion price. In failing the equity classification, the conversion feature was accounted for as an embedded derivative liability as its fair value is affected by changes in the fair value of the Company’s SVS. On the date of the RTO Transaction, the host debt instrument was fair valued using a market rate of approximately 23% and the conversion feature was fair valued (Note 16). After initial recognition, the Secured Convertible Notes are accounted for at amortized cost, with the embedded derivative liability being measured at fair value with changes in fair value being recorded in the consolidated statements of loss and comprehensive loss.

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

	\$
Balance, December 31, 2018	-
Secured Convertible Notes assumed on RTO Transaction (Note 4)	690,247
Interest and accretion expense	132,824
Balance, September 30, 2019	823,071

As at September 30, 2019, the current portion of the total outstanding amount of \$823,071 that is due within 12 months of the reporting date is \$150,000.

16. 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:

	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 January 1, 2018	\$ -	\$ -	\$ -	\$ -	\$ -
Fair value of derivative liabilities on issuance date	9,764,246	6,088,652	-	-	15,852,898
Change in fair value of derivative liabilities	(621,945)	(184,325)	-	-	(806,270)
Conversion to common shares	-	-	-	-	-
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)	(5,839,470)	(3,598,272)	(37,432)	(14,818,318)
Conversion to common shares Note 18	(3,946,462)	-	-	-	(3,946,462)
Balance as of September 30, 2019	\$ -	\$ 158,853	\$ 257,467	\$ 88,926	\$ 505,246

(a) Series B Debenture Unit Derivative Liabilities

As detailed in Note 15, the Company issued Series B Debenture Units during 2018 that included certain conversion features that failed equity classification. In addition, in February 2019, the Company issued additional Series B Debenture Units that also included certain conversion features that failed equity classification. 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.

As part of the RTO Transaction (Note 4), the Series B Debenture Units were converted, pursuant to their terms, into MVS shares. Each Underlying Share was exchanged for 1/100 of an MVS upon the closing of the RTO Transaction. The Company revalued the conversion feature on the RTO Transaction date, immediately prior to conversion, at a discount of 10% to the share price 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 September 30, 2019.

The Company used the Monte Carlo Simulation option-pricing model to estimate the fair value of the derivative liabilities (conversion feature and warrants) at issuance and 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

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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 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 conversion feature derivative liabilities during the period ended September 30, 2019:

	February 06, 2019	May 30, 2019
Risk Free Interest Rate	1.70-1.83%	n/a
Exercise Price - US \$	5.23	\$ 4.21
Share Price - US \$	3.28	\$ 4.68
Expected Volatility	71.7%-116.4%	100%
Expected Remaining Life	0.10-3.00 years	n/a
Fair Value	\$147,305	\$ 3,946,462

The following assumptions were used to value the Series B Warrant derivative liabilities during the period ended September 30, 2019:

	At Issuance	September 30, 2019
Risk Free Interest Rate	1.70-1.83%	1.67%
Exercise Price - US \$	6.53	6.50
Share Price - US \$	3.28	1.47
Expected Volatility	71.7%-116.4%	80.50%
Expected Remaining Life	1 year	1.08 year
Fair Value	\$ 93,996	\$ 158,853

These warrants are outstanding at September 30, 2019.

(b) Series D Offerings Warrant Liability

On May 17, 2019, pursuant to an agency agreement among FLRish, AltaCorp Capital Inc. and FMI (together, the "Co-Lead Agents"), on behalf of a syndicate of agents (together with the Co-Lead Agents, the "Agents"), FLRish completed a brokered private placement offering (the "Brokered Concurrent Offering") of 2,508,434 subscription receipts (each, a "Subscription Receipt") at a price of CAD \$7.00 per Subscription Receipt (the "Concurrent Offering Price") for gross proceeds of \$13,358,976 (CAD \$17,559,038). In addition, FLRish completed a concurrent non-brokered offering of 298,547 Subscription Receipts for gross proceeds of \$1,589,949 (CAD \$2,089,829), on the same terms as the Brokered Concurrent Offering (the "Non-Brokered Concurrent Offering", and together with the Brokered Concurrent Offering, the "Concurrent Offering"). The aggregate gross proceeds of the Concurrent Offering were approximately \$14,948,925 (CAD \$19,648,867).

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, without payment of any additional consideration and with no further action on the part of the holder. The Series D Warrants are governed by the terms of a warrant indenture dated May 17, 2019 among the Co-Lead Agents, FLRish, Lineage and Odyssey Trust Company, as warrant agent. Each Series D Warrant issued on conversion of the Subscription Receipts entitles 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. 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. As the exercise price of the Series D Warrants was denominated in a price other than the Company's functional

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currency, the warrant fails to meet the definition of equity and, accordingly, has been accounted for as a derivative liability.

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.

Each SR Share and each Series D Warrant was immediately exchanged on closing of the RTO Transaction for equivalent securities of Harborside, being one SVS and one warrant to purchase one SVS, respectively.

The following assumptions were used to value the Series D Warrants liabilities during the period ended September 30, 2019:

	At Issuance	September 30, 2019
Risk Free Interest Rate	1.64%	1.67%
Exercise Price - US \$	\$ 6.50	6.61
Share Price - US \$	\$ 3.81	1.47
Expected Volatility	90.7%	78.0%
Expected Remaining Life	2 years	1.44 years
Fair Value	\$ 3,855,739	\$ 257,467

These warrants are outstanding at September 30, 2019.

As part of the RTO Transaction, the Company assumed Secured Convertible Notes (Note 15). The fair value of the conversion feature was determined using a Black-Scholes option pricing model with the following assumptions as at May 30, 2019 and as at September 30, 2019:

	May 30, 2019	September 30, 2019
Valuation date share price - CAD \$	5.15	1.81
Conversion price - CAD \$	14.64	14.64
Expected remaining life	0.25 – 2.25 years	0.92-1.92 years
Volatility ⁽¹⁾	91.25% – 115.47%	97.99% – 113.35%
Risk-free interest rate	1.56% – 1.57%	1.43% – 1.47%

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

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

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17. 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 September 30, 2019, the reserve totaled \$35.9 million (December 31, 2018 – \$nil), 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.

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 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

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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.

18. Share Capital

FLRish Share Capital

On April 29, 2018, FLRish filed a Certificate of Amendment to the Amended Articles that revised the amounts of authorized stock in each series as follows:

- 11,000,000 shares of Series A Common Stock;
- 40,000,000 shares of Series B Common Stock;
- 40,000,000 shares of Series C Common Stock;
- 6,250,000 shares of Series A-1 Preferred Stock and
- 6,250,000 shares of Series A-2 Preferred Stock.

In addition, upon such amendment and restatement of the existing articles, each share of Common Stock was automatically changed and converted into one share of Class A Common Stock, and each stock option to purchase Common Stock was automatically changed and converted into one stock option to purchase Class A Common Stock.

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

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

As part of the RTO Transactions, the above classes of stock were converted into shares of Harborside, as described below.

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

	Series A-1 Preferred	Series A-2 Preferred	Common Stock	Series A Common	Series B Common	Series D Common	Subordinate Voting Shares (SVS)	Multiple Voting Shares (MVS)
Balance, December 31, 2017	-	-	2,362,372	-	-	-	-	-
Conversion of Common stock to Series A Common	-	-	(2,362,372)	2,362,372	-	-	-	-
Escrowed upon issuance for PMACC purchase option	-	-	-	-	11,156,626	-	-	-
Conversion of Junior and Senior Notes	4,924,701	1,422	-	-	-	-	-	-
Issuance of Series A-1 Preferred	1,325,299	-	-	-	-	-	-	-
Issuance on exercise of options	-	-	-	2,084,375	-	-	-	-
Issuance in lieu of Series B Convertible Debentures interest payment	-	-	-	-	86,638	-	-	-
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	-	-	-
Reserved shares issued upon PMACC purchase option	-	-	-	-	1,204,819	-	-	-
Issuance as per PMACC purchase option	-	-	-	-	2,846,429	-	-	-
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	-	-	-	-	-	-	-	-
Conversion of MVS to SVS	-	-	-	-	-	-	8,586,364	(85,864)
Issuance on exercise of options post-RTO	-	-	-	-	-	-	20,797	-
Balance, September 30, 2019	-	-	-	-	-	-	18,275,326	236,724

Series A-1 and Series A-2 Preferred Stock of FLRish

The shares of Series A-1 Preferred Stock of FLRish (the “Series A-1 Preferred Shares”) was a class of voting preferred stock, one (1) vote per share, with certain anti-dilution rights for the purpose of protecting from any lower valued financing rounds certain liquidation preferences in case of an unqualified merger or sale, and redemption rights accruing on April 30, 2023. Series A-1 Preferred Shares accrued dividends at 8% per annum from the date of issuance, whether declared or not, is senior to all other classes of stock in liquidation preference, and in the case of an unqualified merger or sale or on April 30, 2023, with redemption rights equal to \$5.20 per share plus accrued dividends or the Fair Market Value as of the unqualified merger or sale or on the redemption date. The redemption right terminates on the occurrence of a qualified acquisition or public offering. If a qualified transaction does not occur prior to October 30, 2019, the Series A-1 Preferred Shares are convertible into additional Series B Common Shares in an amount equal to the percentage obtained by dividing the accrued dividend on such shares by the original Series A issue price. This class of stock was issued in the Series A Offering (as hereinafter defined) and upon conversion of the certain convertible promissory notes of the Company and the Murray Fields & Company, LLC (“Murray Fields”) note (Notes 20 and 22(c)).

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

On April 30, 2018, FLRish issued 1,325,299 Series A-1 Preferred Shares to various parties in exchange for aggregate gross proceeds of \$5,500,000 (the “Series A Offering”). As a result of the Series A Offering, \$12,304,398 in convertible notes, and accrued interest thereon were converted into 4,924,701 Series A-1 Preferred Shares and 1,422 shares of Series A-2 Preferred Stock (the “Series A-2 Preferred Shares”).

As of December 31, 2018, 6,250,000 Series A-1 Preferred Shares, at no par value, were issued and outstanding and 1,422 Series A-2 Preferred Shares were issued and outstanding. The Series A-1 Preferred Stock and Series A-2 Preferred Stock were classified as liabilities (Note 20).

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As part of the RTO Transaction, the issued and outstanding Series A-1 Preferred Shares and Series A-2 Preferred Shares were converted, pursuant to their terms, into Series B Common Stock, shares of which were each ultimately converted into 1/100 of a MVS. Immediately prior to the RTO Transaction, the Series A-1 Preferred Shares and Series A-2 Preferred Shares were revalued at \$23,804,852, based on a per share value was C\$ 5.15 (\$3.81). The Company recognized a change in fair value gain of \$4,555,912 on May 30, 2019 in the fair value change in derivative liabilities and preferred shares in the Condensed Interim Consolidated Statements of Loss and Comprehensive Loss.

Series A Common Stock

The Series A Common Stock of FLRish was a class of voting common stock that possessed one (1) voting right per share and was to be adjusted in the event of any subdivision or combination of Series B Common Shares or shares of Series C Common Stock. Additionally, upon an acquisition any paid in capital would be allocated among the Series A Common stockholders, or a substitution of equivalent rights in a new plan would occur.

At December 31, 2018, 4,446,747 shares of Series A Common Stock, at no par value, were outstanding.

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

Series B Common Stock

The Series B Common Stock of FLRish was a class of voting common stock that possessed one (1) voting right per share.

As of December 31, 2018, there were 11,243,264 Series B Common Shares outstanding, at no par value. As of December 31, 2018, 1,204,819 Series B Common Shares were held in reserve for issuance. These shares were issued during 2019 as part of the exercise of the Merger Option relating to PMACC (Note 4).

As of May 30, 2019, an aggregate of 399,153 Series B Common Shares were issued to holders of debentures in satisfaction of the payment of accrued interest as part of the RTO Transaction. On December 31, 2018, an aggregate of 86,638 Series B Common Shares valued at \$407,881 were issued to holders of debentures in satisfaction of the payment of accrued interest.

As part of the RTO Transaction, the issued and outstanding Series B Common Shares were exchanged for 1/100 of an MVS per Series B Common Share.

Series C Common Stock

The Series C Common Stock of FLRish was a class of non-voting common stock that possessed no voting rights. No shares of Series C Common Stock were issued or reserved for issuance prior to completion of the RTO Transaction.

Series D Common Stock

Series D Common Stock of FLRish was a class of non-voting common stock that possessed no voting rights.

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

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Lineage Share Capital

Lineage Common Shares

Prior to closing of the RTO Transaction, Lineage's authorized capital consisted of an unlimited number of Lineage Common Shares without par value and an unlimited number of preferred shares without par value. The holders of Lineage Common Shares were entitled to receive dividends if, as and when declared by the directors of Lineage. In the event of liquidation, dissolution or winding up of Lineage, whether voluntary or involuntary, or other distribution of assets or property of Lineage amongst its shareholders for the purpose of winding up its affairs, holders of Lineage Common Shares were entitled to receive all property and assets of Lineage properly distributable to its shareholders. The holders of the Lineage Common Shares were entitled to vote at all meetings of the shareholders of Lineage and at all such meetings each such holder had one (1) vote for each Lineage Common Share held.

Immediately prior to closing of the RTO Transaction, there were a total of 75,997,868 Lineage Common Shares issued and outstanding. On closing of the RTO Transaction, the Lineage Common Shares were consolidated and re-designated as SVS based on a consolidation ratio of approximately 41.82 to one (1).

Lineage Special Shares

Prior to closing of the RTO Transaction, Lineage filed articles of amendment to, among other amendments, create a class of an unlimited number of special shares issuable in series, with up to 45,000,000 special shares designated as series A special shares of Lineage ("Series A Special Shares"), up to 12,000,000 special shares designated Series B Special Shares, and up to 15,000,000 special shares designated as Series C Special Shares.

Prior to closing of the RTO Transaction, Lineage declared and paid a stock dividend to the holders of the Lineage Common Shares as at the record date of May 23, 2019, through the issuance of 44,775,010 Series A Special Shares, 11,513,533 Series B Special Shares and 14,072,120 Series C Special Shares (collectively, the "Special Shares"). All Series A Special Shares were automatically converted into SVS upon the completion of the RTO Transaction, without payment of additional consideration or any further action from the holder.

The Series B Special Shares will be automatically converted into 275,325 SVS upon the completion of the LUX Acquisition without payment of additional consideration or any further action from the holder at a specified conversion ratio immediately following the completion of the LUX Acquisition, for no additional consideration. The Series B Special Shares will also be automatically be converted into 275,325 SVS if the Company terminates the LUX Acquisition for reasons other than: (i) the failure to receive regulatory approval for the LUX Acquisition prior to the 180th day after the completion of the RTO Transaction; (ii) the discovery of an undisclosed material adverse effect of at least ten percent (10%) of the total purchase price for the LUX Acquisition (which shall not include the potential litigation titled *White Wolf Farms v. American Redstone, Yolo County Superior Court Case No. CV18-848* and any associated matters); or (iii) the amount of the consideration for the LUX Acquisition is in excess of the amounts set forth in Section 9.1(b) of the Merger Agreement. As a result, if the Company terminates the LUX Acquisition for any of the reasons listed above, the Series B Special Shares would not be subject to automatic conversion but would remain outstanding at the discretion of the Company's board of directors.

The Series C Special Shares will be automatically converted into 336,508 SVS at a specified conversion ratio immediately following the completion of the Agris Farms Acquisition, for no additional consideration. The Series C Special Shares will also be automatically converted into 336,508 SVS if the Company terminates the Agris Farms Acquisition for reasons other than: (i) the failure to receive regulatory approval for the Agris Farms Acquisition prior to the 180th day after the completion of the RTO Transaction; (ii) the discovery of an undisclosed material adverse effect of at least ten percent (10%) of the total purchase price for the Agris Farms Acquisition; or (iii) the amount of the consideration for the Agris Farms Acquisition is in excess of the amounts set forth in Section 9.1(a) of the Merger Agreement. As a result, if the Company terminates the Agris Farms Acquisition for any of the reasons listed above, the Series C Special Shares would not be subject to automatic conversion but would remain outstanding at the

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discretion of the Company's board of directors.

Unless all of the Special Shares have otherwise been converted into Subordinate Voting Shares on or prior to the 180th day after the completion of the RTO Transaction, or such later date as approved by the board of directors, the articles of the Company provide that the Special Shares shall be redeemed by the Company for cancellation.

As at September 30, 2019, the Series B Special Shares and C Special Shares have yet to be redeemed by the Company and remain outstanding. The Company expects to address the redemption for cancellation in the near future.

Harborside Share Capital

On May 30, 2019, FLRish and Lineage completed the 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 (see Note 4).

The RTO Transaction resulted in the former shareholders of FLRish holding a majority of the outstanding share capital and assuming control of Lineage (renamed Harborside) and concurrent with the closing of the RTO Transaction, Lineage completed the Consolidation of the Lineage Common Shares on the basis of approximately 41.82 common shares into one new common share, which were then reclassified as post-Consolidation SVS of Harborside. A new class of MVS of Harborside was also created. Holders of shares of FLRish received MVS, SVS, or a combination thereof, for each share of FLRish outstanding immediately prior to completion of the RTO Transaction.

Series D Concurrent Offering

On May 17, 2019, Harborside completed the Brokered Concurrent Offering of 2,508,434 Subscription Receipts at the Concurrent Offering Price for gross proceeds of \$13,037,586 (C\$17,559,038).

In addition, Harborside completed the Non-Brokered Offering of 298,547 Subscription Receipts for gross proceeds of \$1,551,698 (C\$2,089,829) on the same terms as the Brokered Concurrent Offering (the "Non-Brokered Concurrent Offering"). The aggregate gross proceeds of the Brokered Concurrent Offering and the Non-Brokered Concurrent Offering were approximately \$14,589,284 (C\$19,648,867).

Each Subscription Receipt automatically converted into one SR Share and one Series D Warrant immediately prior to and in connection with the completion of the RTO Transaction, without payment of any additional consideration and with no further action on the part of the holder. Each Series D Warrant issued on conversion of the Subscription Receipts entitles the holder thereof to purchase one (1) SR Share at an exercise price of C\$8.75 per share until May 17, 2021, subject to adjustment in certain circumstances (Note 16). 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.

The Subscription Receipts were valued at \$10,733,544, based on an implied share price of C\$5.15 valued based on the Monte Carlo Simulation Model. The key assumptions used have been discussed in Note 16.

In connection with the Concurrent Offering, the Agents, which included FMI, a related party to the Company post-RTO Transaction (Note 22), received an aggregate cash fee equal to 7% of the gross proceeds of the Brokered Concurrent Offering, a one-time financial advisory fee of C\$105,171, and such number of broker warrants (the "SR Broker Warrants") as is equal to 7% of the number of Subscription Receipts issued pursuant to the Brokered Concurrent Offering. Each SR Broker Warrant is exercisable to purchase one SR Share and one Series D Warrant at the Concurrent Offering Price until May 17, 2021, subject to satisfaction of certain escrow release conditions. On the closing of the RTO Transaction, each SR Broker Warrant immediately became exercisable for securities of Harborside on equivalent terms. Total cash commissions of \$862,275 (CAD \$1,161,313) were paid out to Agents (Note 22).

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The total share issuance costs related to the Concurrent Offering were \$1,354,921, which includes the commission noted above and other professional fees.

Going public stock success fee

On May 30, 2019, the Company paid a going public stock success fee of \$2,166,967 (C\$2,925,622) to FMI Capital Advisory Inc. (“FMICAI”, a related party to the Company post-RTO Transaction), which was satisfied by the issuance of 417,946 shares of Series D Common Stock of Harborside immediately prior to the completion of the RTO Transaction. The aforementioned shares of Series D Common Stock were exchanged for 417,946 SVS of the Company upon completion of the RTO Transaction. The fair value of these SVS was expensed as share-based payments in Professional Fees.

On May 30, 2019, the Company paid M&A advisory fees to FMICAI by the issuance of 22,237 SVS. The SVS were valued at \$85,512, based on the Company’s Brokered and Non-Brokered Concurrent Offering price. The fair value of these SVS was expensed as share-based payments.

19. Contributed Surplus

FLRish Stock Options

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.

The stock options awarded vest on a graded-vesting schedule, generally, over a two-year period and expire 10 years after the grant date. The Company uses a graded vesting schedule to record compensation expense, which results in greater compensation expense earlier in the vesting period after an award is granted. All stock options granted are settled in the Company’s shares. If an employee terminates employment with the Company prior to awards vesting, the unvested awards are forfeited and the historical compensation expense for unvested options is reversed in the period of termination.

The following table summarizes the stock option activities for the period ended September 30, 2019 and the year ended December 31, 2018:

	Number of options outstanding	Weighted average exercise price
Balance, December 31, 2017	5,617,235	0.071
Issuance of new options	1,611,500	4.150
Issuance of new options	265,000	0.050
Issuance of new options	10,000	5.310
Exercise of stock options	(2,084,375)	0.050
Expired	(206,416)	0.240
Balance, December 31, 2018	5,212,944	1.343
Issuance of replacement options	625,000	0.050
Exercise of stock options	(1,330,128)	0.054
Expired	(79,959)	0.945
Balance, September 30, 2019	4,427,857	1.555

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During the three and nine months ended September 30, 2019, the Company recorded aggregate share-based compensation expense of \$189,043 and \$979,841, respectively, for all stock options vesting during the periods. During the three and nine months ended September 30, 2018, the Company recorded aggregate share-based compensation expense of \$883,824 and \$3,454,043, respectively, for all stock options vesting during the periods. During the nine months ended September 30, 2019 and 2018, the Company received cash consideration of \$72,477 and \$13,437, respectively, for the exercise of 1,330,128 and 268,750 vested stock options, respectively.

For the year ended December 31, 2018, the grant date fair value of options granted was determined using the Black-Scholes option-pricing model with the following assumptions:

	2018
Valuation date share price	\$3.74 – \$4.71
Exercise price	\$0.05 - \$5.31
Cumulative volatility	100%
Expected life	2.50 – 7.51 years
Risk free interest rate	2.03% - 2.47%
Dividend yield	0%

During July 2019, the Company issued 625,000 replacement options to a former officer upon separation. There was no additional incremental fair value with the issuance of these options and as such no additional expense was recognized.

The risk-free rate was based on Bank of Canada zero coupon bond with a remaining term equal to the expected life of the options. The expected lives were based on the average of vesting periods and contractual expiration terms. The expected dividend yield was zero. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have public trading and volatility history prior to the Company going public.

As of September 30, 2019, the FLRish Options outstanding and exercisable and with the corresponding exercise price and weighted average remaining life is as follows:

<u>Expiry date</u>	<u>Date of Grant</u>	<u>Number of options outstanding</u>	<u>Number of options exercisable</u>	<u>Exercise price (USD)</u>	<u>Weighted average remaining life</u>
July 5, 2022	July 5, 2019	625,000	625,000	\$ 0.055	2.76
August 1, 2026	August 1, 2016	1,395,357	1,395,357	\$ 0.050	6.84
July 26, 2027	July 26, 2017	520,625	369,667	\$ 0.050	7.82
December 4, 2027	December 4, 2017	27,375	15,969	\$ 4.150	8.18
April 25, 2028	April 25, 2018	1,446,500	1,042,000	\$ 4.150	8.57
May 7, 2028	May 7, 2018	15,000	15,000	\$ 4.150	8.60
May 15, 2028	May 15, 2018	43,000	43,000	\$ 4.150	8.63
May 15, 2028	May 15, 2018	265,000	265,000	\$ 0.050	8.63
June 25, 2028	June 25, 2018	10,000	10,000	\$ 4.150	8.74
September 12, 2028	September 12, 2018	50,000	25,000	\$ 4.150	8.95
November 7, 2028	November 7, 2018	10,000	4,167	\$ 5.310	9.10
November 29, 2028	November 29, 2018	20,000	7,778	\$ 4.150	9.16
Totals		4,427,857	3,817,937		7.13

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The weighted average remaining contractual life of outstanding options as of September 30, 2019 is 7.13 years.

Restricted Stock Awards

On April 25, 2018, the Company granted 769,000 RSAs pursuant to the Plan, to certain officers of the Company (the “Participants”). Each RSA entitles the Participants to one SVS. Under the terms of the grants, when the RSA’s are issued to Participants, the shares issued vest over 24 months from the date of grant. No RSA’s were granted in 2019.

The fair value on the grant date of the RSAs was measured at \$2,614,000 (or \$3.40 per RSA), using a Monte Carlo simulation model taking into account the fair value of the Company’s stock on the date of grant and into the future, encompassing a wide range of assumptions and possible future market conditions. During the three and nine months ended September 30, 2019, the Company recorded share-based compensation of \$117,544 and \$700,665, respectively, in relation to the vesting of the RSAs. During the three and nine months ended September 30, 2018, the Company recorded share-based compensation of \$628,101 and \$1,376,061, respectively, in relation to the vesting of the RSA’s. These amounts included acceleration of vesting for two former officers of the Company based on separation agreements reached upon termination during May and October 2019.

Lineage Stock Options

On May 30, 2019, the Company issued 134,232 options to former option holders of Lineage (Note 4). Of these options, 90,391 expired on August 28, 2019, 90 days after the RTO Transaction, in accordance with the Plan.

As of September 30, 2019, the Lineage Options outstanding and exercisable and with the corresponding exercise price and weighted average remaining life is as follows:

<u>Expiry date</u>	<u>Date of Grant</u>	<u>Number of options outstanding</u>	<u>Number of options exercisable</u>	<u>Exercise price (CAD)</u>	<u>Exercise price (USD)</u>	<u>Weighted average remaining life</u>
May 24, 2023	May 24, 2018	19,728	9,864	CAD 10.45	\$ 8.062	3.65
December 14, 2023	December 14, 2018	18,315	18,315	CAD 6.90	\$ 5.323	4.21
Totals		38,043	28,179			3.92

During the three and nine months ended September 30, 2019, the Company recorded share-based compensation of \$17,297 and \$23,929, respectively, in relation to the vesting of the Lineage options.

20. Preferred Series A Shares

On April 30, 2018, FLRish issued 1,325,299 Series A-1 Preferred Shares to various parties in exchange for aggregate gross proceeds of \$5,500,000 pursuant to the Series A Offering. As a result of the Series A Offering, \$12,304,398 worth of convertible promissory notes (issued by FLRish during 2015, 2016 and 2017), and accrued interest thereon, plus \$3,663,483 representing the fair value of the derivative liability of the conversion feature of such notes were converted into 4,924,701 Series A-1 Preferred Shares and 1,422 Series A-2 Preferred Shares. During the second quarter of 2018, FLRish recorded a loss of \$4,475,564 related to the conversion in the Consolidated Statement of Loss and Comprehensive Loss. FLRish also recorded \$292,118 in share issuance costs in the second quarter of 2018 for expenses incurred related to the Series A Offering.

The Series A-1 Preferred Shares is a class of voting preferred stock that was issued in the Series A Offering and upon conversion of certain convertible promissory notes of the Company. It has value weighted anti-dilution rights, accrues dividends at 8% per annum from the date of issuance, whether declared or not, possesses one vote per share, is senior to all other classes of stock in liquidation preference, and in the case of an unqualified merger or sale or on April 30, 2023, it has redemption rights equal to the greater of \$5.20 per share plus accrued dividends or the Fair Market Value as of the unqualified merger or sale or on the redemption date.

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As of December 31, 2018, 6,250,000 Series A-1 Preferred Shares, at no par value, were issued and outstanding. 1,422 shares of Series A-2 Preferred Shares were issued and outstanding.

The Series A-1 Preferred Shares are convertible into additional Series B Common Shares if a qualified transaction does not occur prior to October 30, 2019, in an amount equal to the percentage obtained by dividing the accrued dividend on such shares by the original Series A-1 Preferred Share issue price.

The Series A-1 Preferred Shares and Series A-2 Preferred Shares (collectively, the “Preferred Shares”) are compound financial instruments, containing a derivative liability for the conversion option, redemption option, rights on liquidation and dividend rights, with the remainder of the instrument being an equity instrument, representing the holder’s voting rights. As such, the Company has elected to designate the entire instrument as a financial liability measured at fair value through profit or loss from the initial recognition date in accordance with IFRS 9 – *Financial Instruments*.

The Preferred Shares were issued for cash at \$4.15 per share in connection with the Series A Offering on April 30, 2018. The Company concluded that the cash consideration paid by the investors represents the fair value of the Preferred Shares on the date of issuance.

As at March 31, 2019, the Company estimated the fair value of the Preferred Shares using a Hybrid Method, a blend of the PWERM and an OPM primarily based on the October 2018 convertible debenture private placement rolled forward to March 31, 2019. The following key assumptions were used in the valuation:

Probability Weighted Expected Return Method Assumptions		Option Pricing Model Assumptions	
Probability Weighting	60%	Probability Weighting	40%
Implied exit Values (USD in Millions)	IPO-Early - \$110-\$190 IPO-Mid - \$150-\$285 IPO-Late - \$175-\$365	Volatility	101.0%
IPO - Early	50%	Risk Free Rate	2.2%
IPO - Mid	25%	Expected Life	2.6 years
IPO - Late	25%	Implied Enterprise Value (USD mm)	\$66.7
		Dividend Yield	0%

As part of the fair valuation, the Company evaluated the change in value of the Preferred Shares attributable to changes in the Company’s credit risk. The analysis included a review of the industry wide capital structure as well as the actual capital structure of Company. Based on such analysis, the Company determined that there were no changes to the Preferred Shares attributable to credit risk change.

The fair value of the Preferred Stock on March 31, 2019 was \$4.25 per share, resulting in a decrease to the Series-A Preferred Shares in the amount of \$1,773,395 during the first quarter 2019. The change in the fair value was recognized under fair value change in derivative liabilities and preferred shares in the consolidated statements of loss and comprehensive loss during the first quarter of 2019.

Fair value changes consider exit price as of the measurement period, to include dividends and market participant expectations. Therefore, accrued dividends are already considered in determining the fair value of the instrument. Accordingly, no accrued dividends were separately recorded in the financial statements as of March 31,

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2019 and through the conversion upon the RTO Transaction.

The outstanding 6,250,000 Series A-1 Preferred Shares and 1,422 Series A-2 Preferred Shares prior to the RTO Transaction were converted into SVS as part of the RTO Transaction at a conversion price of \$3.81, which was the implied value of the share based on the Concurrent Offering prior to the RTO Transaction. The resultant gain of \$4,555,912 upon conversion during the second quarter of 2019 was recognized in the fair value change in derivative liabilities and preferred shares in the Condensed Interim Consolidated Statements of Loss and Comprehensive Loss for the period ended September 30, 2019. There are no Preferred Shares outstanding as of September 30, 2019.

21. Reserve for Warrants

The activity for warrants outstanding for the nine months ended September 30, 2019 and the year ended December 31, 2018, is summarized as follows:

	Number of warrants outstanding	Weighted average exercise price	Weighted average exercise price
	#	CAD \$	\$
Balance December 31, 2017	-	-	-
Series B Warrants Issued	3,775,974	8.60	6.45
Broker Warrants Issued	168,303	6.90	4.15
Advisory Warrants Issued	143,241	6.90	4.15
Balance, December 31, 2018	4,087,518	8.47	6.28
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, September 30, 2019	7,577,086	8.75	6.57

The Company completed the initial closing of the 2018 Private Placements on October 30, 2018, with the issuance and sale of 6,212 Series B Debenture Units for aggregate gross proceeds of \$4,706,417 (CAD \$6,212,000). On November 16, 2018, the Company completed the second closing of the 2018 Private Placements with the issuance and sale of 28,566 Series B Debenture Units for aggregate gross proceeds of \$21,703,718 (CAD \$28,566,000). On February 6, 2019, the Company issued an additional 2,450 Series B Debenture Units for gross proceeds of \$1,857,165 (CAD \$2,450,000) as part of the February 2019 Private Placement.

In addition, on December 17, 2018, the Company agreed to issue 8,624 Series B Debenture Units to CFP in relation to the CFP Settlement Agreement, worth \$6,433,420 (CAD \$8,624,000).

Each Series B Debenture Unit is comprised of CAD \$1,000 principal amount of Series B Debentures and 87 Series B Warrants. Each Series B Warrant is exercisable into one Underlying Share at a price of C\$ 8.60 per share until October 30, 2020, subject to adjustment and/or acceleration in certain circumstances. The Series B Debentures are governed by the Debenture Indenture and the Series B Warrants are governed by the Warrant Indenture. The Series B Warrants are being accounted for as a derivative liability (Note 16).

In conjunction with the issuance of the Series B Debenture Units in 2018, the Company issued the Broker Warrants.

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Each Broker Warrant is exercisable into one Underlying Share at an exercise price of C\$6.90 per share until the earlier of 60 months from the date of issuance, or 24 months from the completion of the RTO Transaction, subject to adjustment and/or acceleration in certain circumstances. As at December 31, 2018, there were 168,303 Broker Warrants issued at a value of \$350,060 which vested upon issuance and were recorded as debt issuance costs. There were also 143,241 advisory warrants (the "Advisory Warrants") issued at a value of \$282,668, pursuant to a supplemental advisory agreement dated December 3, 2018 between FLRish and FMI Capital Advisory Inc., a related party to the Company post-RTO Transaction. The Advisory Warrants also vested upon issuance and were recorded as Professional Fees in the Consolidated Statements of Loss and Comprehensive Loss.

The Broker Warrants and Advisory Warrants were valued based on the fair value of services received unless the fair value of services received cannot be reliably measured, in which case the warrants are valued at fair value based on the Black-Scholes option pricing model at the date of measurement with the following assumptions:

	2018
Valuation date share price	\$4.33 - \$4.71
Exercise price	\$5.23
Expected life	3 years
Cumulative volatility	75%
Risk free interest rate	2.83% - 2.9%
Dividend rate	0%

The risk-free rate was based on Bank of Canada zero coupon bond with a remaining term equal to the expected life of the options. The expected lives were based on the average of expected terms when the Company would go public. The expected dividend yield was zero. Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have public trading and volatility history prior to the Company going public.

Warrant issuances for the nine months ended September 30, 2019

Series D Warrants

On May 17, 2019, the Company issued 2,806,981 Series D Warrants in connection with the Brokered Concurrent Offering (Note 18). Each Series D Warrant entitles the holder thereof to purchase one common share at an exercise price of C\$8.75 per share until May 17, 2021. The Series D Warrants are being accounted for as a derivative liability (Note 16).

The Company also issued 160,775 Broker Warrants 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 Concurrent Offering Price of C\$7.00 until May 17, 2021.

The Broker Warrants were valued based on the fair value of services received unless the fair value of services received cannot be reliably measured, in which case the warrants are valued at fair value based on the Black-Scholes option pricing model at the date of measurement with the following assumptions:

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	2019
Valuation date share price	\$5.35
Exercise price	\$5.20
Expected life	2 years
Cumulative volatility	100%
Risk free interest rate	1.60%
Dividend rate	0%

Series B Warrants

On February 6, 2019, the Company issued 213,150 Series B Warrants on conversion of the Series B Debentures. Each Series B Warrant is exercisable into one (1) Underlying Share at a price of C\$8.60 per share until October 30, 2020, subject to adjustment and/or acceleration in certain circumstances. The Series B warrants are being accounted for as a derivative liability (Note 16).

Lineage Warrants

An aggregate of 12,907,664 warrants (308,662 warrants on a post-Consolidation basis) to purchase Lineage Common Shares (“Lineage Warrants”) were outstanding immediately prior to the closing of the RTO Transaction (Note 4), the particulars of which are set out below:

<u>Date of Expiry</u>	<u>Warrants (post- Consolidation)</u>	<u>Exercise Price (post- Consolidation)</u>	<u>Exercise Price (post- Consolidation)</u>
	#	CAD	\$
January 24, 2020	113,348	13.59	10.48
January 24, 2020	9,068	10.45	8.06
February 08, 2020	82,310	13.59	10.48
February 08, 2020	6,017	10.45	8.06
February 14, 2020	72,877	13.59	10.48
February 14, 2020	1,798	10.45	8.06
February 16, 2020	21,522	13.59	10.48
February 16, 2020	1,722	10.45	8.06
Total	308,662	13.40	10.34

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

Date of expiry	Number of warrants outstanding	Exercise price	Exercise price	Weighted average remaining life
	#	CAD	\$	Years
January 24, 2020	113,348	13.59	10.48	0.36
January 24, 2020	9,068	10.45	8.06	0.36
February 08, 2020	82,310	13.59	10.48	0.40
February 08, 2020	6,017	10.45	8.06	0.40
February 14, 2020	72,877	13.59	10.48	0.42
February 14, 2020	1,798	10.45	8.06	0.42
February 16, 2020	21,522	13.59	10.48	0.43
February 16, 2020	1,722	10.45	8.06	0.43
October 30, 2020	3,989,124	8.60	6.63	1.22
May 17, 2021	2,806,981	8.75	6.75	1.83
May 17, 2021	160,775	7.00	5.40	1.83
May 31, 2021	311,544	6.90	5.32	1.88
Total	<u>7,577,086</u>	8.75	6.75	1.45

22. 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 nine months ended September 30, 2019 and for the year ended September 30, 2018 was as follows:

	September 30, 2019	September 30, 2018
Short-Term Employee Benefits, including Salaries and Director Fees	\$ 1,568,569	\$ 1,073,732
Bonuses Related to RTO	730,796	-
Severance Payments	99,159	-
Share-Based Compensation – Directors & Executives	1,269,720	2,510,312
Total	\$ 3,668,244	\$ 3,584,044

As at September 30, 2019 and December 31, 2018, no amounts were owed to directors or officers of the Company.

(b) Related Parties

Foundation Group of Companies

FMI and 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 nine months ended September 30, 2019, Harborside paid

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FMICAI \$56,528 (C\$75,000) (2018 – \$79,002 (C\$105,000)) in fees related to the FMICAI Consulting Agreement. These amounts are recorded as professional fees in the Condensed Interim 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 into one Underlying Share at an exercise price of \$4.15 (C\$6.90) per share until the earlier of 60 months from December 3, 2018 or 24 months from the completion of the RTO Transaction. The Company paid \$281,222 (C\$370,000) and \$477,309 (C\$630,000) during the nine months ended September 30, 2019, related to the FMICAI Advisory Agreement. These amounts are recorded as professional fees in the Condensed Interim Statements of Loss and Comprehensive Loss.

On August 28, 2019, FMICAI entered into a new advisory agreement with Harborside (the “M&A Advisory Agreement”) for C\$8,000 a month, which applies retroactively to July 1, 2019. Under the M&A Advisory Agreement, FMICAI charged \$18,058 (C\$24,000) (2018 – \$nil) for advisory services to the Company during the nine months ended September 30, 2019. These charges are included in professional fees in the Statement of Loss and Comprehensive Loss. In addition to these transactions, FMI and FMICAI engaged in other transactions with Harborside described in Notes 15, 16 and 18 of these financial statements.

As at September 30, 2019, a balance of \$20,855 (December 31, 2018 – \$nil) was owed to FMICAI and was included in accounts payable and accrued liabilities.

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 (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 Concurrent Offering. Quinsam received 378,233 SVS through conversion of units subscribed from the 2018 Private Placements and the Concurrent Offering, and 56,485 SVS through its prior subscription of Lineage securities, in connection with the RTO Transaction.

Nutritional High International Inc (“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 nine months ended September, 30 2019, the Company made purchases in the amount of \$514,422 (September 30, 2018 - \$nil) from a subsidiary of Nutritional High and had \$10,627 and \$103,687 included in accounts payable as at September 30, 2019 and December 31, 2018, respectively.

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 Concurrent Offering in May 2019.

Branson Corporate Services Ltd.

Branson Corporate Services Ltd. (“Branson”), an entity where Mr. Bilodeau holds a 18% ownership interest, Mr. Szweras holds a 15% ownership interest and Mr. Li is employed, provides finance, accounting and administrative

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services to Harborside. During the nine months ended September 30, 2019, the Company was charged \$86,526 (2018 – \$nil) for services provided by Branson which is included in professional fees and included in the salaries paid to key management personnel above. As at September 30, 2019, an amount of \$13,055 (December 31, 2018 – \$nil) was owed to Branson.

Legal Transactions

For the nine months ended September 30, 2019, Aird & Berlis LLP (“Aird & Berlis”), a law firm where Sherri Altshuler, a Director of Harborside, is also a partner, charged the Company \$803,036 (September 30, 2018 – \$84,180) for legal services, an amount which is included in professional fees. As at September 30, 2019, an amount of \$241,185 (December 31, 2018 – \$nil) owing to Aird & Berlis was included in accounts payable and accrued liabilities.

For the nine months ended September 30, 2019, Fogler, Rubinoff LLP (“Fogler”), a law firm in which Mr. Szweras is a partner, charged \$326,023 (2018 – \$nil) for legal services to the Company, an amount which is included in professional fees. As at September 30, 2019, an amount of \$53,791 (December 31, 2018 – \$nil) 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

In December 2015, FLRish entered into an unsecured loan agreement with one of its former officers, John Yost (the “Yost Note”). The Yost Note bears interest at 20% annually and was due on the later of December 31, 2016, or the date on which certain convertible promissory notes of FLRish are repaid or converted in full into equity. As at December 31, 2017, the principal balance of the Yost Note was \$500,000 and accrued interest totaled \$200,000. All principal and accrued interest was paid in full in May 2018.

On December 19, 2017, FLRish issued a convertible promissory note maturing on March 1, 2018, with a face value of \$1,000,000, bearing interest at an annual rate of 12%, to Murray Fields LLC, a Delaware limited liability company owned by Roger Jenkins, a previous advisor to FLRish. The note was convertible upon FLRish raising \$4,000,000 in an equity financing. Subsequent to issuance, the maturity date was extended to May 1, 2018. On April 30, 2018, FLRish raised \$5,500,000 as part of the Series A Offering. Accrued interest of \$78,834 was paid in cash upon conversion of the note.

(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.

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 nine

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months ended September 30, 2019, FLRish recognized contract services revenue of \$83,187 when PMACC and SJW were not considered to be under common control with FLRish (September 30, 2018 - \$1,128,069). 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 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 nine months ended September 30, 2019, FLRish had recognized revenue of \$275,321 (September 30, 2018, \$6,100,146) 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 nine months ended September 30, 2019, FLRish had recognized contract services revenue of \$82,744 (September 30, 2018 - \$3,297,956). 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 December 31, 2018, the Company had an accounts receivable balance with PMACC and SJW in the amount of \$22,147,570. The balance outstanding of \$22,303,626 on January 7, 2019 was included as part of the total consideration paid for acquisition of PMACC and SJW by Harborside (Note 4).

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 (Note 4).

In December 2017, the Company loaned \$1,000,075 to SJW by way of a promissory note bearing zero interest. As of December 31, 2018, the note had been paid back in its entirety.

Pursuant to a transaction dated December 25, 2017, PMACC had acquired 50% of the 100,000 authorized and issued common shares of SLWS, for the purchase price of \$3,000,000 to be satisfied with a promissory note in the principal amount of \$3,000,000 payable to FLRish, as the seller. Due to the interest rate on the promissory note being below market rate, PMACC had discounted the note payable and investment in SLWS in the amount of \$1,580,359, based on a 12% annual interest rate.

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

(e) San Leandro Wellness Solutions (SLWS)

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

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From January 7, 2019 to September 30, 2019, the Company advanced an additional \$860,762 to SLWS.

23. 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 September 30	
	2019	2018
Current tax	\$ 1,396,308	\$ 38,727
Deferred tax	(57,725)	-
Income tax expense	\$ 1,338,583	\$ 38,727

	Nine Months Ended September 30	
	2019	2018
Current tax	\$ 3,467,226	\$ 115,414
Deferred tax	(143,339)	-
Income tax expense	\$ 3,323,887	\$ 115,414

The net tax provision differs from that expected by applying the US 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 financial reporting purposes and their tax values. Of the \$15.7 million net deferred tax liability as of September 30, 2019, \$15.5 million relates to temporary differences associated with intangible assets recorded on the acquisitions of PMACC, SJW, and the RTO Transaction with Lineage as discussed in Notes 4 and 11.

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 the acquisitions of PMACC, SJW, and Lineage as discussed in Note 4:

	September 30, 2019
Balance at the beginning of the year	-
Net deferred tax liability from acquisitions	(15,824,481)
Recognized adjustment	143,339
Balance at the end of the period	\$ (15,681,142)

24. 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.

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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 nine months ended September 30, 2019 and 2018.

25. 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.

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Financial instruments

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

Financial Statement Caption	Classification
Cash	Amortized cost
Accounts receivable, net	Amortized cost
Accounts receivable - related party	Amortized cost
Deposits	Amortized cost
Notes receivable - related party	Amortized cost
Advances	Amortized cost
Investments	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Notes payable and accrued interest	Amortized cost
Series A Preferred Liability	FVTPL
Convertible notes payable	Amortized cost
Derivative liabilities	FVTPL
Warrant Derivative Liability	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 Series A Preferred Liability, Derivative Liabilities use Level 3 inputs. Series A Preferred Liability uses a Hybrid Option pricing model. Derivative Liabilities are measured at fair value at each reporting period based on a Monte Carlo Simulation option-pricing model. Refer to Note 16 and 25 for summary of key assumptions.

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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 5 for additional expected credit loss information.

As of December 31, 2018, the Company's significant credit risk was isolated to a single customer, PMACC, a related party. At the end of 2018, as the Company was negotiating an acquisition with PMACC and the receivable recorded would be considered as part of the consideration transferred, the Company performed an assessment and reversed a prior provision recorded on the expected credit loss related to amounts due from PMACC. As a result, the Company did not have an allowance for credit loss as of December 31, 2018. PMACC was acquired by the Company on January 7, 2019. Refer to Note 4 for additional information.

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 September 30, 2019, the Company had a cash balance of \$16.3 million (December 31, 2018 – \$14.8 million) to settle current liabilities of \$53.3 million (December 31, 2018 – \$6.9 million). The higher current liabilities as of September 30, 2019 is primarily due to the Company's provision for an uncertain tax position. Refer to Note 17 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. Provisions are excluded from the contractual obligations table above in consideration of the Company's appeal to the Ninth Circuit court. Refer to Note 17, *Provisions*, for further information.

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.

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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 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.

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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.

26. 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 September 30, 2019, the reserve totaled \$35.9 million (December 31, 2018 – \$nil).

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:

- (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 were initially set for trial in January 2020. The trial did not commence as scheduled and there is currently no trial date set. The next scheduled event on the Court calendar is a status update on August 24, 2020. 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

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 upon completion of delivery of cannabis and cannabis related products totaling \$500,000 in wholesale value. 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,

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that the agreements shall not renew.

The shares are to be issued only upon delivery of products equal to \$500,000. As of September 30, 2019, the Company had not yet begun to deliver products to Accucanna.

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.

27. General and Administrative Expenses

For the three and nine months ended September 30, 2019 and 2018, general and administrative expenses consisted of the following:

	3 months ending		9 months ending	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Advertising and promotion	\$ 729,416	\$ -	\$ 955,527	\$ 1,459
Bad Debt Expense / (Recoveries)	2,200	292,532	2,200	1,241,927
Banking and processing fees	157,556	510	607,725	1,574
Other general administrative	37,311	16,437	89,791	30,750
Office and general expenses	1,058,019	215,195	2,864,853	557,494
Salaries and benefits	2,814,268	1,521,398	9,497,890	4,963,374
Taxes and Licenses	279,544	218,680	407,149	969,292
Travel and Entertainment	148,904	50,620	289,928	161,142
Total	\$ 5,227,218	\$ 2,315,372	\$ 14,715,063	\$ 7,927,012

28. 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		Nine months ended	
September 30		September 30	
2019	2018	2019	2018
42,098,670	14,965,393	30,142,855	9,473,346

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 and 2018, 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 the 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 and nine months ended September 30, 2019 and 2018 because they are deemed to be antidilutive.

29. Segmented Information

The Company's operations comprise a single operating segment engaged in the cultivation, branding, distribution and

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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.

30. Subsequent Events

Subsequent events were evaluated through the reissuance date of this report.

Acquisition of SLWS

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

The project was under construction until December 31, 2019.

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 stock options; and 200,000 stock options granted April 25, 2018 in two (2) awards (one for 150,000 stock options and another for 50,000 stock options, both exercisable at a price of \$4.15 per share) of which 112,500 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.

Warrants

Subsequent to December 31, 2019, 308,662 warrants which were previously issued to former warrant holders of Lineage as part of the RTO Transaction expired unexercised.

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

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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 and on July 17, 2020 the parties appeared before the Court for a case management conference. At the case management conference, the Court ruled that (i) no class related discovery is permitted, (ii) within the next 90 days, the Company may take discovery on plaintiff's TCPA claim, (iii) within the next 90 days, plaintiff may take discovery from the Company or its outside service provider as to the issue of whether an "automatic telephone dialing system" ("ATDS") was used to call plaintiff. The Court also expressly ruled that the parties may not engage in any expert discovery on the ATDS issue and set another case management conference for October 16, 2020. In the interim, the Company anticipates that the U.S. Supreme Court will grant review on the issue of what constitutes an ATDS in the *Duguid v. Facebook* petition, and the Company plans to subsequently propose that the Court extend the stay until the U.S. Supreme Court issues a decision on Facebook's petition.

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.

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

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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 December 7, 2019, the Company began operating a dispensary in Desert Hot Springs, California under a management services agreement.

On February 11, 2020, the Company officially opened its retail facility in San Leandro, to operate alongside its medical facility. The new facility offers the same products as the Company's other existing retail locations, including Harborside's own *KEY* and *Harborside Farms* lines of cannabis products.

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 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.

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.

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. The Company will apply to the OSC to have the CTO revoked after it has filed: (i) the amended and restated financial statements of FLRish for the years ended December 31, 2017 and 2018; (ii) the annual financial statements and related management's discussion and analysis of the Company for the year ended December 31, 2019; and (iii) 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.