HARBORSIDE INC.
Consolidated Financial Statements
For the Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars)

HARBORSIDE INC.
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Management's Responsibility for Financial Reporting

To the Shareholders of Harborside Inc.:

The accompanying consolidated financial statements were prepared by management of Harborside Inc. (the "Company") and were reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These consolidated financial statements have been audited by the Company's auditor, MNP LLP, and their report is presented herein.

April 24, 2021

"Peter Bilodeau" (signed)	*"Tom DiGiovanni" (signed)*
Interim Chief Executive Officer	*Chief Financial Officer*

Independent Auditor's Report

To the Shareholders of Harborside Inc.

Opinion

We have audited the consolidated financial statements of Harborside Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jaspreet Chahal.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 24, 2021

HARBORSIDE INC.

Consolidated Statements of Financial Position
As At December 31, 2020 and 2019

	Note	2020	2019
ASSETS			
Current Assets			
Cash		$ 10,458,545	$ 12,164,927
Accounts receivable, net		1,932,002	1,471,502
Inventories	5	3,785,849	2,654,027
Biological assets	6	1,321,069	1,167,125
Prepaid expenses	7	1,759,013	851,090
Note receivable - related party	23	101,337	-
Other current assets	3	450,069	-
Total current assets		19,807,884	18,308,671
Investments and advances	8	250,000	313,911
Property, plant and equipment, net	9	17,909,607	21,784,015
Right-of-use assets	11	4,707,834	6,531,986
Deposits		20,053	253,408
Intangible assets	10	57,907,891	53,879,550
Goodwill	10	14,366,055	14,366,055
TOTAL ASSETS		$ 114,969,324	$ 115,437,596
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12	$ 17,198,715	$ 15,743,606
Due to related parties	3	144,000	-
Convertible notes payable - current	14	473,908	150,000
Derivative liabilities - current	15	21,180	55,433
Lease payable - current	11	487,574	306,189
Income tax payable	18	7,382,002	3,621,506
Provisions	16	37,758,875	36,500,000
Total current liabilities		63,466,254	56,376,734
Note payable and accrued interest	13	10,726,421	10,204,744
Convertible notes payable		-	439,506
Derivative liabilities		-	33,136
Deferred tax liability	18	16,185,657	15,651,198
Lease payable	11	5,959,407	7,597,176
TOTAL LIABILITIES		96,337,739	90,302,494
Shareholders' Equity			
Share capital	19	97,423,381	94,289,909
Contributed surplus	20	9,305,199	9,967,943
Reserve for warrants	21	1,093,592	1,187,777
Accumulated deficit		(92,257,217)	(80,310,527)
Non-controlling interest	3	3,066,630	-
TOTAL SHAREHOLDERS' EQUITY		18,631,585	25,135,102
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 114,969,324	$ 115,437,596

Nature of operations (Note 1)
Commitments and contingencies (Note 24)
Subsequent events (Note 28)

Approved on behalf of the Board of Directors:

"Matt Hawkins" (signed)	*"Peter Kampian" (signed)*
Director	Director

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

HARBORSIDE INC.

Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars, except share amounts)

	Note	2020	2019
Retail revenue, net		$ 42,015,941	$ 38,553,585
Wholesale revenue, net		21,400,832	10,457,702
Service and rental revenue - related party		-	441,252
Gross revenue		63,416,773	49,452,539
Cultivation taxes		(3,463,056)	(2,111,390)
Net Revenue		59,953,717	47,341,149
Cost of goods sold - retail		20,463,538	19,757,769
Cost of goods sold - wholesale		11,447,628	11,269,013
Cost of service and rental revenue - related party		-	285,196
		31,911,166	31,311,978
Gross Profit before Biological Asset Adjustments		28,042,551	16,029,171
Changes in fair value less costs to sell of biological asset transformation	6	4,174,784	(4,158,924)
Realized fair value amounts included in inventory sold		(2,623,127)	2,944,916
Gross Profit		29,594,208	14,815,163
Expenses			
General and administrative	17	18,163,657	19,314,063
Professional fees		8,937,463	10,379,078
Share-based compensation	20	1,058,671	2,028,267
Allowance for expected credit losses	4	230,597	-
Write-downs of receivables and investments and advances	8	706,363	3,069,620
Impairment loss	11, 8 & 9	3,200,339	36,924,031
Depreciation and amortization	10, 11 & 9	996,729	1,052,395
		33,293,819	72,767,454
Loss before the Undernoted		(3,699,611)	(57,952,291)
Interest income (expense), net		(4,707,664)	(7,220,798)
Other income (expense)		552,038	(60,513)
Provisions	16	912,003	-
Fair value gain in derivative liabilities and preferred shares	15	67,389	19,789,470
Foreign exchange gain		1,044,287	4,235
Total Other (Expense) Income		(2,131,947)	12,512,394
Net Loss before Income Taxes		(5,831,558)	(45,439,897)
Income tax expense	18	(6,115,132)	(4,018,218)
Net Loss and Comprehensive Loss		$(11,946,690)	$(49,458,115)
Weighted Average Number of Shares Outstanding			
Basic and diluted		42,505,013	33,278,046
Net Loss per Share			
Basic and diluted	22	$ (0.28)	$ (1.49)

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

HARBORSIDE INC.

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars, except share amounts)

	Note	Share Capital	Contributed Surplus	Warrants	Accumulated Deficit	Subtotal	Non-controlling interests	Equity incl. non-controlling interests
Balance, January 1, 2019		**$ 9,608,048**	**$ 6,091,639**	**$ 632,728**	**$ (30,852,412)**	**$ (14,519,997)**	**$ -**	**$ (14,519,997)**
Exercise of stock options	20	79,977	-	-	-	79,977	-	79,977
Share-based compensation	20	-	2,028,267	-	-	2,028,267	-	2,028,267
Concurrent raise offering for share capital		10,733,544	-	-	-	10,733,544	-	10,733,544
Concurrent raise offering issuance costs		(1,354,921)	-	-	-	(1,354,921)	-	(1,354,921)
Issuance of broker warrants		-	-	460,864	-	460,864		460,864
Series B Common Stock issued for PMACC acquisition	3	13,288,090	-	-	-	13,288,090	-	13,288,090
Issuance on reverse takeover transaction	3	11,016,549	1,878,691	94,185	-	12,989,425	-	12,989,425
Conversion of convertible debentures and preferred shares		48,635,489	-	-	-	48,635,489	-	48,635,489
Share-based payments for professional fees expense	20	2,252,479	-	-	-	2,252,479	-	2,252,479
Expiry of options issued on reverse takeover	20	30,654	(30,654)	-	-	-	-	-
Net loss for the year		-	-	-	(49,458,115)	(49,458,115)	-	(49,458,115)
Balance, December 31, 2019		**$ 94,289,909**	**$ 9,967,943**	**$ 1,187,777**	**$ (80,310,527)**	**$ 25,135,102**	**$ -**	**$ 25,135,102**
Balance, January 1, 2020		**$ 94,289,909**	**$ 9,967,943**	**$ 1,187,777**	**$ (80,310,527)**	**$ 25,135,102**	**$ -**	**$ 25,135,102**
Exercise of stock options	20	42,433	-	-	-	42,433	-	42,433
Share-based compensation	20	-	1,058,671	-	-	1,058,671	-	1,058,671
Issuance of restricted stock awards	20	1,815,600	(1,815,600)	-	-	-	-	-
Expiry of warrants issued on reverse takeover	14 & 21	-	94,185	(94,185)	-	-	-	-
Ownership interest in FGW	3	1,275,439	-	-	-	1,275,439	3,066,630	4,342,069
Net loss for the year		-	-	-	(11,946,690)	(11,946,690)	-	(11,946,690)
Balance, December 31, 2020		**$ 97,423,381**	**$ 9,305,199**	**$ 1,093,592**	**$ (92,257,217)**	**$ 15,564,955**	**$ 3,066,630**	**$ 18,631,585**

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

HARBORSIDE INC.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars, except share amounts)

	Note	2020	2019
Operating Activities			
Net loss for the year		$ (11,946,690)	$ (49,458,115)
Adjustments to reconcile net loss to cash flow:			
Share-based compensation	20	1,058,671	2,028,267
Share-based compensation for professional fees		-	2,252,479
Depreciation and amortization	9	2,473,406	1,842,769
Right-of-use assets amortization	11	533,484	640,199
Intangible assets amortization	10	13,659	-
Changes in fair value less costs to sell of biological asset transformation	6	(4,174,784)	4,158,924
Fair value gain in derivative liabilities and preferred shares	15	(67,389)	(19,789,470)
Provision for expected credit losses		230,597	-
Interest income on Altai advances	8	(67,562)	(39,929)
Gain on sale of Lakeside Minerals Corp.	8	(78,540)	-
Loss on disposal of property, plant and equipment	9	30,269	-
Impairment loss		1,984,992	36,924,031
Professional fees classified as financing activities - concurrent financing		-	486,730
Equity in losses of unconsolidated affiliates		-	160,000
Interest income on note receivable - related party	23	(1,337)	-
Accretion of interest and debt discount on convertible debentures		-	3,101,202
Write-down of receivables, investments and advances	8	706,363	3,069,620
Deferred income taxes		-	(173,283)
Foreign exchange gain (loss)		(1,044,287)	(4,235)
		(10,349,148)	(14,800,811)
Changes in non-cash working capital:			
Accounts receivable, net	4	(709,436)	(781,090)
Accounts receivable - related party		-	(156,056)
Inventories	5	(1,402,149)	199,783
Biological assets	6	4,020,840	(4,710,974)
Prepaid expenses	7	(923,125)	(209,349)
Deposits		3,402	272,400
Accounts payable and accrued liabilities	12	1,529,409	4,946,156
Accrued interest on note payable	13	556,079	539,206
Lease payable	11	(25,246)	(314,892)
Income tax payable	18	3,760,496	3,434,037
Provisions	16	1,258,875	2,324,000
Deferred tax liability	18	534,459	-
Cash Flows (used in) Operating Activities		(1,745,544)	(9,257,590)

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

HARBORSIDE INC.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars, except share amounts)

	Note	2020	2019
Financing Activities			
Proceeds raised in concurrent financing, net or cash paid in broker fees		-	14,589,298
Cash issuance costs for concurrent financing		-	(1,380,777)
Repayment of notes payable		-	(1,930,000)
Repayment of convertible note		(150,000)	-
Proceeds from exercise of stock options	20	42,433	79,977
Cash Flows (used in) provided by Financing Activities		(107,567)	11,358,498
Investing Activities			
Cash acquired on reverse takeover of Lineage		-	210,143
Cash acquired on acquisition of PMACC/SJW		-	2,129,223
Cash paid to acquire SLWS, net of cash received		-	(1,741,755)
Advances to unconsolidated affiliates - SLWS		-	(998,286)
Advances to unconsolidated affiliates - Agris		-	(1,000,000)
Advances on note receivable - related party	23	(100,000)	-
Purchases of property, plant and equipment	9	(754,728)	(3,428,787)
Cash Flows (used in) Investing Activities		(854,728)	(4,829,462)
Decrease in cash		(2,707,839)	(2,728,554)
Effects of foreign exchange on cash		1,001,457	130,820
Cash, beginning of year		12,164,927	14,762,661
Cash, end of year		$ 10,458,545	$ 12,164,927
Supplementary Information			
Cash paid during the year for:			
Interest		955,602	817,200
Income taxes		1,986,650	811,000
Non-Cash Investing and Financing Activities			
Issuance of restricted share awards	20	1,815,600	-
Loss on sale of business	8	1,215,347	-
Investment in Accucanna	8	270,327	-
Expiry of warrants issued on reverse takeover	21	94,185	-
Series B convertible debentures converted to shares of Series B Common Stock		-	20,884,175
Proceeds from issuance of 2019 convertible debentures received in 2018		-	1,857,165

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

(Expressed in United States Dollars, except share amounts)

1. Nature of Operations

Harborside Inc. ("Harborside" or the "Company"), through its affiliated entities, owns and operates three retail dispensaries in California, one retail dispensary in Oregon (the "Terpene Station Dispensary") and a cultivation/production facility in Salinas, California (the "Production Campus"). In addition, the Company operates a dispensary in Desert Hot Springs, California under a management services agreement, which is does not control.

On April 30, 2020, Harborside permanently closed 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. On December 18, 2020, the Company acquired a 21% ownership interest in FGW Haight Inc. ("FGW"), a company that has the conditional use approval necessary to operate a cannabis dispensary and related businesses in the Haight Ashbury area of San Francisco, California. 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 state and local laws and regulations.

The Company's subordinate voting shares ("SVS") are listed on the Canadian Securities Exchange (the "CSE") under the trading symbol "HBOR" and on the OTCQX under the trading symbol "HBORF". The Company's registered office is located at 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada, and the Company's head office is located at 2100 Embarcadero, Suite 202, Oakland, California 94606, United States.

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 41.818182 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. On June 10, 2019, the SVS began trading on the CSE.

2. Summary of Significant Accounting Policies

2.1 Statement of Compliance and Basis of Measurement

The Company's consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"). These consolidated financial statements were authorized for issuance by the Company's board of directors (the "Board") on April 24, 2021.

For comparative purposes, the Company has reclassified certain items on the comparative Consolidated Statements of Financial Position to conform with the current year's presentation. The items reclassified were as follows:

	Previously reported	After reclassification
Accounts receivable, net	$ 1,461,370	$ 1,471,502
Prepaid expenses	$ 856,692	$ 851,090
Other current assets	$ 10,132	$ -
Deposits	$ 247,806	$ 253,408

2. Summary of Significant Accounting Policies (continued)

2.2 Functional Currency

The functional currency of the Company and each of its subsidiaries, as determined by management, is the United States ("U.S.") dollar. Unless otherwise indicated, these consolidated financial statements are presented in U.S. dollars ($ or "USD"). All references to "C$" or "CAD" pertain to Canadian dollars.

2.3 Basis of Consolidation

These consolidated financial statements incorporate the accounts of the Company and its wholly-owned subsidiaries as follows:

Name	Jurisdiction	Purpose	Percentage Owned (%) 2020	Percentage Owned (%) 2019
Harborside Inc.	Ontario, Canada	Parent	100	100
Lakeside Minerals Corp. (Note 8f)	Ontario, Canada	Holding Company	-	100
Unite Capital Corp.	Ontario, Canada	Holding Company	100	100
LGC Holdings USA, Inc.	Nevada, U.S.	Holding Company	100	100
LGC Real Estate Holdings, LLC	Nevada, U.S.	Holding Company	100	100
LGC Real Estate (Colorado), LLC	Nevada, U.S.	Holding Company	100	100
LGC Operations, LLC	Nevada, U.S.	Holding Company	100	100
Lineage GCL Oregon Corporation	Oregon, U.S.	Holding Company	100	100
LGC LOR DIS 1, LLC	Oregon, U.S.	Operating Company	100	100
LGC LOR DIS 2, LLC	Oregon, U.S.	Operating Company	100	100
Lineage GCL California, LLC	California, U.S.	Holding Company	100	100
FLRish, Inc.	California, U.S.	Management Company	100	100
FLRish IP, LLC	California, U.S.	Holding Company	100	100
FLRish Retail, LLC	California, U.S.	Holding Company	100	100
FLRish Retail JV, LLC	California, U.S.	Holding Company	100	100
FLRish Retail Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish Farms Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish Retail Affiliates, LLC	California, U.S.	Holding Company	100	100
FLRish Flagship Enterprises, Inc.	California, U.S.	Holding Company	100	100
Savature Inc.	California, U.S.	Operating Company	100	100
SaVaCa, LLC	California, U.S.	Holding Company	100	100
FFC1, LLC	California, U.S.	Holding Company	100	100
FLRish Farms Cultivation 2, LLC	California, U.S.	Operating Company	100	100
FLRish Farms Cultivation 7, LLC	California, U.S.	Holding Company	100	100
Patients Mutual Assistance Collective Corporation	California, U.S.	Operating Company	100	100
San Jose Wellness Solutions Corp.	California, U.S.	Operating Company	100	100
San Leandro Wellness Solutions Inc.	California, U.S.	Operating Company	100	100
Haight Acquisition Corporation (Note 3)	Delaware, U.S.	Holding Company	100	-
FGW Haight Inc. (Note 3)	California, U.S.	Operating Company	21	-

2. Summary of Significant Accounting Policies (continued)

2.3 Basis of Consolidation (continued)

The financial statements for the years ended December 31, 2020 and 2019 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in IFRS 10. Entities over which the Company has control are presented on a consolidated basis from the date control commences. Control, as defined by IFRS 10 for purposes of determining the consolidated basis of financial statement presentation exists when the Company is exposed to, or has right to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. All of the consolidated entities were under control, as defined in IFRS 10 for purposes of determining the consolidated basis of financial statement presentation, during the entirety of the periods for which their respective results of operations were included in the consolidated statements. The 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.

2.4 COVID-19 Estimation Uncertainty

On January 30, 2020, the World Health Organization ("WHO") declared the ongoing novel coronavirus "COVID-19" outbreak a global health emergency and on March 11, 2020, the WHO expanded its classification of the outbreak to a worldwide pandemic. Federal, state, provincial and municipal governments in North America enacted measures to combat the spread of COVID-19. The COVID-19 outbreak continues to rapidly evolve, and is causing business disruptions across the entire global economy and society. The pandemic has had far-reaching impacts on businesses and individuals globally. For the time being and until economies stabilize, the Company has shifted its strategic approach and the manner in which it operates its business to continue providing affordable and high-quality products to its customers and ensure that its workplace and stores have appropriate measures to put in place to limit social interactions and enforce social distancing measures. At the same time, the Company has also taken steps to alter its marketing methods, conserve cash and adjust its overall strategic direction to preserve the health of its business.

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

The Company is closely monitoring the evolution of COVID-19. As of the date hereof, the Company's operations have not been significantly impacted as the cannabis industry has been deemed an essential service in the states of California and Oregon since March 2020. Going forward, the extent of the impact of COVID-19 on the Company's operational and financial performance will depend on various developments, including the duration and magnitude of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and cannot be predicted. 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.

2. Summary of Significant Accounting Policies (continued)

2.5 Cash

Cash and cash equivalents is comprised of funds held in banks, funds held in trust with the Company's legal counsel (which is available on demand with no restrictions), and cash held at the Company's operating premises in Oregon and California. Cash equivalents include investments and deposits that mature within three months. The Company did not have any cash equivalents as at December 31, 2020 and 2019.

2.6 Inventories

Inventories are measured at the lower of cost and net realizable value ("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 cost 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.

2.7 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 material, 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.

2.8 Investments in and Advances to Unconsolidated Associates

Associates are companies over which the Company 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.

2. Summary of Significant Accounting Policies (continued)

2.8 Investments in and Advances to Unconsolidated Associates (continued)

Investments in associates 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 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, if any, transferred to deficit.

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

Investments in associates 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.

2.9 Property, Plant and Equipment

Property, plant and equipment is measured at cost, net of accumulated depreciation and amortization and any impairment losses. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Land	Not depreciated
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

An asset's residual value, useful life and depreciation method are reviewed during each financial year 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.

Expenditures for repairs and maintenance are charged to general and administrative expenses 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.

2. Summary of Significant Accounting Policies (continued)

2.10 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 lives of four years. The Company's licenses were assigned an indefinite life based on the expected use by the Company and as there are no legal, regulatory or economic factors that limit the useful 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.

2.11 Impairment of Long-Lived Assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less cost of disposal, and its value in use. If the carrying amount of an asset exceeds it recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded if no impairment loss had been recognized previously. For the years ended December 31, 2020 and 2019, the Company recorded an impairment loss of $3,200,339 and $36,924,031, respectively.

2.12 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 is measured at historical cost and is evaluated for impairment annually in the fourth quarter or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of a CGU, including goodwill, exceeds the recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value in use. Impairment losses recognized in respect of the CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in profit or loss in the reporting year in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

2.13 Loans and Borrowings

Loans and borrowings are classified as other financial liabilities and are measured at fair value at initial recognition and subsequently at amortized cost. Transactions costs are deferred and amortized over the term of the liability.

2. Summary of Significant Accounting Policies (continued)

2.14 Leases

The Company primarily leases office, cultivation, processing and retail space. The Company assesses whether a contract is or contains a lease, at inception of a contract.

The right-of-use asset is initially measured at cost, which is primarily comprised of the initial amount of the lease liability, plus initial direct costs and lease payments at or before the lease commencement date, less any lease incentives received, and is amortized on a straight-line basis over the remaining lease term. All right-of-use assets are reviewed periodically for impairment. The lease liability is initially measured at the present value of lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The Company elected to recognized expenses for leases with a term of 12 months or less and leases of low-value assets as expenses as incurred. Leases have varying terms with remaining lease terms of up to approximately 15 years.

Lease payments included in the measurement of the lease liability comprise (a) fixed payments, including in-substance fixed payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and (d) the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early. At inception or reassessment of a contract that contains lease and non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

2.15 Convertible Debentures

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit and loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost.

Given that it is subject to various inputs, assumptions and estimates including contractual future cash flows, discount rates, credit spreads and volatility, the determination of the fair value is also an area of significant judgment. Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds.

2.16 Provisions

A provision is recognized when the Company has a present obligation (legal or constructive) that has arisen 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.

2. Summary of Significant Accounting Policies (continued)

2.17 Income Taxes

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses which are directly related to the cost of producing the products or cost of production. This results in permanent differences between ordinary and necessary business expensed deemed unallowable under IRC Section 280E.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The Company is treated as a United States corporation for United States federal income tax purposes under section 7874 of the U.S. Tax Code and is subject to the United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada) (the "ITA") for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the United States. Notwithstanding the foregoing, it is Management's expectation that the Company's activities will be conducted in such a manner that income from operations will not be subjected to double taxation.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. As at December 31, 2020, the Company has evaluated the uncertain tax treatments relating to the application of Section 280E on the 2019 income tax returns and recorded an uncertain tax position of $1,960,837. In addition, the Company has separately recorded a provision for uncertain tax positions associated with the PMACC/SJW acquisition (Note 16).

2.18 Revenue Recognition

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 enters the commercial market and is 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;

2. Summary of Significant Accounting Policies (continued)

2.18 Revenue Recognition (continued)

- 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 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 obligations upon delivery and acceptance by the customer.

Dispensary Revenue

Revenue from the direct sale of cannabis to customers for a fixed price is recognized when the Company transfers control of the goods to the customer at the point of sale and the customer has paid for the goods.

Cultivation and Wholesale Revenues

The Company recognizes revenue from the sale of cannabis for a fixed price upon the delivery of cannabis goods. The Company transfers control and satisfies its performance obligations upon delivery and acceptance by the customer.

Loyalty Program

The Company has a loyalty rewards program that allows retail customers to earn reward points to be used on future purchases of goods 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. 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 at December 31, 2020 and 2019, the Company had a loyalty program liability of $685,642 and $607,682, respectively, which was recorded as a component of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

2.19 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.

2. Summary of Significant Accounting Policies (continued)

2.19 Share Capital (continued)

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.

2.20 Share-Based Payments

Stock options

Stock options issued to employees are measured at fair value at the grant date and are recognized as an expense over the relevant vesting periods with a corresponding credit to reserve for share-based payments.

Stock options issued to non-employees are measured at either the fair value of goods or services received, or the fair value of equity instruments issued if it is determined that the fair value of the goods or services cannot be reliably measured. The fair value of non-employee stock options is recorded as an expense at the date the goods or services are received.

The fair value of options is calculated using the Black-Scholes-Merton option pricing model. When determining the fair value of stock options, management is required to make certain assumptions and estimates related to expected lives, volatility, risk-free rate, future dividend yields and estimated forfeitures at the initial grant date.

The number of options expected to vest is adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that will eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to share capital in the year of forfeiture or expiry.

Upon the exercise of stock options, proceeds received from stock option holders are recorded as an increase to share capital.

Restricted Stock Awards ("RSAs")

RSAs are equity-settled share-based payments. RSAs are measured at their fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant, and are recognized as share-based compensation expense over the vesting period, with a corresponding credit to reserve for share-based payments. Upon the release of RSAs, the related reserve for share-based payments is transferred to share capital.

The amount recognized for services received as consideration for the RSAs granted is based on the number of equity instruments that eventually vest. Amounts recorded for forfeited RSAs are transferred to deficit in the year of forfeiture or expiry.

2.21 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.

2. Summary of Significant Accounting Policies (continued)

2.21 Loss Per Share (continued)

The Company's potentially dilutive securities have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the weighted average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to shareholders is the same.

2.22 Non-Controlling Interests

Non-controlling interests ("NCI") are recognized either at fair value or at the NCI's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis at the date of acquisition. Changes in a Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. At December 31, 2020, the Company held a 21% ownership interest in FGW from an acquisition that occurred during the year ended December 31, 2020 (Note 3).

2.23 Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

2.24 Fair Value Measurements

The Company measures certain financial and non-financial assets and liabilities at fair value at each reporting date. In addition, fair value measurements are disclosed for certain financial and non-financial assets and liabilities.

Fair value is the price that would either be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and disclosure purposes is determined on such a basis, except for share-based payment transactions, and measurements that have some similarities to fair value but are not fair value, such as net realizable value or value in use.

Assets and liabilities, for which fair value is measured or disclosed in the consolidated financial statements, are classified using a three-level fair value hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements. Each level is based on the following:

- 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 (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 value of the asset or liability.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of an asset or liability in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

2. Summary of Significant Accounting Policies (continued)

2.24 Fair Value Measurements (continued)

The Company's biological assets and derivative liabilities are classified within level 3 of the fair value hierarchy.

There have been no transfers between hierarchy levels during the years ended December 31, 2020 and 2019.

2.25 Financial Instruments

The Company classifies and measures financial instruments in accordance with IFRS 9, Financial Instruments. On initial recognition, a financial asset is classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI"), or amortized cost. Purchases and sales of financial assets are recorded on a settlement date basis.

Subsequent to initial recognition, all investments are measured at fair value. All gains and losses arising from changes in fair value of the investments are presented in the Consolidated Statements of Loss and Comprehensive Loss in the period in which the gain or losses arise. The Company will only reclassify a financial asset when the Company changes its business model for managing the financial asset. All reclassifications are recorded at fair value at the date of reclassification, which becomes the new carrying value.

i. Financial assets classified at fair value through profit and loss

Financial assets are classified as FVTPL if the asset is an equity investment, if the Company has not elected to classify investments as FVTOCI, or if the Company's business model for holding the investment is achieved other than by both collecting contractual cash flows and by selling the assets. As at December 31, 2020 and 2019, the Company did not have any financial assets at FVTOCI.

FVTPL assets are initially recorded at fair value with realized gains and losses on disposition and subsequent changes in fair value recorded in net loss. Directly attributable transaction costs are recorded in net loss as incurred.

ii. Non-derivative financial liabilities

Non-derivative financial liabilities are recognized initially on the date the Company becomes a party to the contractual obligations of the financial instrument. All non-derivative financial liabilities are recognized initially at fair value along with directly attributable transaction costs. Subsequent to initial measurement, non-derivative financial liabilities are measured at amortized cost using the effective interest method.

iii. Derivative financial instruments - warrants and options

A financial derivative such as warrants or options that will be settled with the Company's own equity instruments will be classified as an equity instrument if the derivative is to acquire a fixed number of the Company's own equity instruments for a fixed amount of U.S. dollars.

A financial derivative will be considered a financial liability at fair value through profit or loss if it is used to acquire a variable number of equity instruments and the options or warrants were not offered pro-rata to all existing owners of the class of non-derivative equity instruments.

2. Summary of Significant Accounting Policies (continued)

2.25 Financial Instruments (continued)

The following table presents the Company's classification of financial assets and financial liabilities as at December 31, 2020:

Financial assets/ financial liability	Classification
Cash and cash equivalents	Amortized cost
Accounts receivable, net	Amortized cost
Deposits	Amortized cost
Investments	FVTPL
Advances	Cost
Accounts payable and accrued liabilities	Amortized cost
Note payable and accrued interest	Amortized cost
Convertible notes payable	Amortized cost
Derivative liabilities	FVTPL

The Company recognizes a provision for expected credit losses on financial assets that are measured at amortized cost. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due. The Company considers a financial asset to be in default either when the borrower is unlikely to pay its credit obligations to the Company is full, or when the financial asset is more than 90 days past due.

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

The Company assesses all information available including, on a forward-looking basis, the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For accounts receivable only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, from the dates of the trade receivables, the Company recognizes a loss provision based on lifetime expected credit losses at each reporting date.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

2. Summary of Significant Accounting Policies (continued)

2.26 Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised in any future periods affected. Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Business combination

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

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

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

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.

2. Summary of Significant Accounting Policies (continued)

2.26 Critical accounting estimates and judgments (continued)

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

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

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

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

Provision for expected credit losses ("ECL")

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

2.26 Critical accounting estimates and judgments (continued)

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell or its value in use. If the carrying amount of an asset or a CGU exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss for the amount by which the carrying amount of the asset exceeds the recoverable amount.

Goodwill impairment

When determining the recoverable amount of the CGU or CGUs to which goodwill is allocated, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the condition for these judgments and estimates can significantly affect the recoverable amount.

Incremental borrowing rate for leases under IFRS 16

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

Leases

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

Share-based payment arrangements

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

2. Summary of Significant Accounting Policies (continued)

2.26 Critical accounting estimates and judgments (continued)

Compound financial instruments

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

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

Income taxes

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

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

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

Provisions

The Company recognizes provisions if there is a present obligation (legal or constructive) that has arisen as a result of a past event, it is probable that the Company will be required to settle the obligation and the obligation can be reliably estimated. The Company's provision as at December 31, 2020 and 2019 relates to a provision for uncertain tax positions under Internal Revenue Code ("IRC") Section 280E for PMACC and SJW. Many of the central issues relating to the interpretations of Section 280E remain unsettled, and there are critical accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowances as deductions under Section 280E). The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although the Company strongly disagrees with the positions taken by the Internal Revenue Service and the finding of the U.S. Tax Court, the Company has determined that a reserve for uncertain tax position should be recorded for all years subject to statutory review (Note 16). 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.

2. Summary of Significant Accounting Policies (continued)

2.26 Critical accounting estimates and judgments (continued)

Going concern

At the end of each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends, and are consistent with those used to evaluate impairment of goodwill and intangible assets as at December 31, 2020. 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 16, the Company has recognized a provision for particular uncertain tax positions which are related to the PMACC and SJW business combination. Management has considered, in consultation with outside counsel, that the final amount to be paid is uncertain and the timing of any payments arising from these proceedings or any future proceeding exceeds twelve months from the date that these financial statements were authorized to be issued. No payments related to any of the provision amounts are expected to be paid until 2022 or later. The Company believes it will have funds in the future to satisfy any such required cash outflows from its operating cash flow performance and other sources of financing. However, it is possible that the Company will need to obtain additional capital to meet these uncertain cash flow requirements and there is no assurance that such capital will be available or available on favorable terms.

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

These 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.

2.27 Adoption of New Accounting Policies

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

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

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

2. Summary of Significant Accounting Policies (continued)

2.27 Adoption of New Accounting Policies (continued)

Conceptual Framework

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

Business Combinations

On October 22, 2018, the IASB issued a narrow scope amendment to IFRS 3 Business Combinations. The 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, and was adopted by the Company, on January 1, 2020. The amendments adopted in this standard were applied in the asset acquisition during the year ended December 31, 2020 (Note 3).

2.28 Recent Accounting Pronouncements

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

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

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

3. Acquisitions

Acquisitions during the year ended December 31, 2020

On December 18, 2020, the Company entered into a securities purchase agreement (the "FGW Agreement") to acquire a 50.1% interest in FGW (the "FGW Transaction"), with an initial ownership interest of 21%. FGW is a company that has the conditional use approval necessary to operate a retail cannabis dispensary and related businesses in the Haight Ashbury area of San Francisco, California. FGW is not currently generating revenue. Upon receipt of certain regulatory approvals from the Director of the Office of Cannabis in San Francisco relating to the FGW Transaction (the "Specified Approval"), the Company's total ownership in FGW will increase to 50.1%, upon the conversion of the convertible note issued to the Company on closing of the FGW Transaction (the "FGW Note"), valued at $1,265,000. If the Specified Approval has not been obtained by June 30, 2021, or notification has been provided that the Specified Approval will not be granted, the principal amount of the FGW Note plus all accrued and unpaid interest will become immediately due and payable by FGW upon notification by the Company that it wishes to convert the FGW Note. Upon such time, all shareholders of FGW excluding the Company, are obligated to contribute to FGW such number of FGW shares as is equal to 29.1% of the issued and outstanding FGW shares (the "Additional Shares"), and FGW will repay the Company in full the principal amount of the FGW Note with the Additional Shares plus all accrued and unpaid interest in cash.

(Expressed in United States Dollars, except share amounts)

3. Acquisitions (continued)

Acquisitions during the year ended December 31, 2020 (continued)

The FGW Note bears interest at 4.0% per annum and matures on June 30, 2031. Conversion of the FGW Note is expected to occur in the fall of 2021. Subject to the Specified Approval being obtained, the Company will negotiate a definitive agreement relating to the purchase of an additional 29.9% of the issued and outstanding equity of FGW (the "Subsequent Shares") to get to a total equity ownership of FGW of 80%. The aggregate purchase price for the Subsequent Shares will be $1,300,650, which will be satisfied in MVS priced at the greater of: (i) the 30 day volume weighted average price of the SVS on the CSE ending on the day prior to closing of the purchase of the Subsequent Shares, less a 10% discount, multiplied by 100; (ii) C$150 per MVS; or (iii) such other price as may be approved by the CSE. The Company will also have a first right refusal to purchase, in its discretion, in whole or in part and in one or more closings, the remaining 20% of the equity of FGW subject to regulatory approvals, including the Specified Approval.

It was determined that FGW did not constitute a business in accordance with IFRS 3. Accordingly, the transaction was accounted for as an asset acquisition.

The following table summarizes the allocation of consideration exchanged to the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed:

		FGW
Acquisition date		December 18, 2020
Fair value of consideration paid:		
MVS investment for 21% equity interest in FGW	$	1,275,439
Cash investment in convertible note		1,265,000
Total consideration		2,540,439
Less call option received		(450,069)
Total consideration	$	2,090,370

	FGW
Consideration paid	$ 2,090,370
Fair value of net assets acquired:	
Cash	1,265,000
Intangible asset - license	4,042,000
Right-of-use asset	684,195
Accounts payable and accrued liabilities	(6,000)
Due to related parties	(144,000)
Lease liability	(684,195)
Non-controlling interest	(3,066,630)
Net assets acquired	$ 2,090,370

Upon closing of the FGW Transaction, the Company paid an aggregate purchase price of $2,179,350 to secure its 21% equity position in FGW and obtain the FGW Note, which was based on a post-build out proforma working capital enterprise value of $4,350,000 (the "Purchase Price"). The Purchase Price was comprised of: (a) the issuance of 9,648.86 MVS valued at C$125 per MVS as consideration for 21% equity interest of FGW; and (b) the payment of $1,265,000 as consideration for the FGW Note entitling the Company to such number of underlying FGW shares equal to a 29.1% equity interest in FGW.

(Expressed in United States Dollars, except share amounts)

3. Acquisitions (continued)

Acquisitions during the year ended December 31, 2020 (continued)

The conversion option embedded in the FGW Note was determined to have a fair value of $450,069 which was recorded as a component of other current assets on the accompanying Consolidated Statements of Financial Position.

The following table presents the summarized financial information for FGW before intercompany eliminations as at December 31, 2020:

	2020
Current assets	$ 1,251,503
Non-current assets	$ 697,692
Non-current liabilities	$ 1,949,195

Acquisitions during the year ended December 31, 2019

The Company completed three business acquisitions during the year ended December 31, 2019. The acquisitions of Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness Solutions Corp. ("SJW"), and the RTO Transaction were accounted for in accordance with IFRS 3. The acquisition of San Leandro Wellness Solutions Inc. ("SLWS") was deemed to be an asset acquisition, not a business combination.

A summary of the final accounting for the business acquisitions completed during the year ended December 31, 2019 was as follows:

	PMACC/SJW	**RTO Transaction**	**SLWS**	**Total**
Acquisition date	January 7, 2019	May 30, 2019	October 9, 2019	
Fair value of consideration paid:				
Cash	$ -	$ -	$ 1,742,202	$ 1,742,202
Fair value of:				
Debt assumed/settled	27,749,246	1,576,342	2,028,073	31,353,661
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	$ 3,770,275	$ 59,373,379

(Expressed in United States Dollars, except share amounts)

3. Acquisitions (continued)

Acquisitions during the year ended December 31, 2019 (continued)

	PMACC/SJW	RTO Transaction	SLWS	Total
Consideration paid	$ 41,037,336	$ 14,565,768	$ 3,770,275	$ 59,373,379
Fair value of net assets acquired:				
Cash	2,129,223	210,143	447	2,339,813
Accounts receivable	629,170	61,243	-	690,413
Inventories	2,854,662	84,101	-	2,938,763
Biological assets	615,075	-	-	615,075
Prepaid expenses	547,439	19,544	10,775	577,758
Investments and advances to unconsolidated affiliates	1,212,807	2,305,931	-	3,518,738
Property, plant and equipment	1,165,436	-	1,796,230	2,961,666
Right-of-use assets	1,491,113	163,736	2,195,797	3,850,646
Intangible assets - licenses	51,800,000	239,970	2,005,137	54,045,107
Intangible assets - trademark	-	113,899	-	113,899
Deferred tax assets	-	107,399	-	107,399
Other current assets	13,123	-	-	13,123
Accounts payable and accrued liabilities	(6,787,382)	(699,756)	(42,314)	(7,529,452)
Derivative liabilities	-	(126,358)	-	(126,358)
Lease liabilities	(2,552,456)	(167,734)	(2,195,797)	(4,915,987)
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	3,770,275	8,362,749
Goodwill	37,909,991	13,100,639	-	51,010,630
Net Assets Acquired	$ 41,037,336	$ 14,565,768	$ 3,770,275	$ 59,373,379

Had these acquisitions been made as of the beginning of the 2019 annual reporting period, the Company's consolidated revenue and loss for the year ended December 31, 2019 would have been as shown below:

	Net revenue	Net loss
As reported	$ 47,341,149	$ (49,458,115)
Pro forma impact for:		
PMACC/SJW	934,523	(309,780)
RTO Transaction	526,347	(547,676)
Pro forma	$ 48,802,019	$ (50,315,571)

3. Acquisitions (continued)

Acquisitions during the year ended December 31, 2019 (continued)

Acquisition of PMACC and SJW

PMACC is a California company that was incorporated on August 28, 2005. PMACC’s primary activity is the cultivation, processing and dispensing of cannabis to eligible individuals pursuant to state and local laws. 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 considered 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, pursuant to a series of agreements (the "Merger Option Agreements") previously entered into between FLRish, PMACC and SJW, FLRish gained control of PMACC and SJW. The Merger Option Agreements provided 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 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 exercise of the Merger Options or at the termination of the Merger Options. If the Merger Options were 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.

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. 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. In October 2019, the Company purchased the remaining 50% ownership in SLWS, making it a wholly-owned subsidiary of Harborside.

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 NCI 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.

3. Acquisitions (continued)

Acquisitions during the year ended December 31, 2019 (continued)

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 shares of Series B Common Stock 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 immediately effective. 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 Consolidated Statements of Loss and Comprehensive Loss for the year ended December 31, 2019.

The estimated fair value of acquired intangible assets includes approximately $51.7 million for cannabis licenses to 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 Consolidated Statements of Loss and Comprehensive Loss for the year ended December 31, 2019 includes net revenue of $47,169,501 and net loss of $9,194,764 of PMACC and SJW since the January 7, 2019 acquisition date.

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.

3. Acquisitions (continued)

Acquisitions during the year ended December 31, 2019 (continued)

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 19) and 1,817,340 SVS issued in exchange for the Lineage Common Shares (as defined in Note 19).

ii. 134,232 options to acquire SVS, having an estimated fair value of $128,305, determined based on a Black-Scholes-Merton 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-Merton 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 (the "LUX Acquisition") of Lucrum Enterprises Inc., d/b/a LUX Cannabis Dispensary ("LUX") (See Note 8). Similarly, the Series C Special Shares would be converted into one Lineage Common Share upon the completion of the acquisition (the "Agris Acquisition") of Walnut Oaks, LLC d/b/a Agris Farms ("Agris Farms") (Note 8). In both instances, the conversion would not require the payment of additional consideration or any further action from the holder. If the LUX 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 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 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 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.

3. Acquisitions (continued)

Acquisitions during the year ended December 31, 2019 (continued)

As at 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 for accounting purposes 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. Subsequent to December 31, 2020, the Board took steps to formally redeem and cancel the Series B Special Shares and Series C Special Shares at a redemption price of C$0.000001 per share in accordance with the Company's articles (Note 28).

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 Consolidated Statements of Loss and Comprehensive Loss for the year ended December 31, 2019 includes revenue of $964,920 and net loss of $5,055,333 of Lineage since the closing date of the RTO Transaction.

Acquisition of SLWS

SLWS was formed on September 28, 2015 as a premier indoor clone cultivator, with the intention of launching a cannabis dispensary in San Leandro, California. The project was under construction until December 31, 2019.

On January 7, 2019, as part of the PMACC acquisition, Harborside acquired a 50% ownership interest in SLWS. 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. After adjustments for debt, a 10% discount for lack of control and a 23% discount for lack of marketability were applied to arrive at the fair value estimate of the 50% equity investment. The fair value of the investment was estimated to be $160,000. In addition, SLWS owed PMACC $1,057,807, which has been recorded at carrying value as of January 7, 2019.

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 estimated fair value of acquired intangible assets includes a cannabis dispensary permit of $2,005,137. The key assumptions used in estimating fair value of the intangible asset relate to management’s five-year projections, estimated long-term growth, and an after-tax discount rate applicable to the intangible assets estimated at approximately 17%. The discount rate incorporates the risk-free rate as well as risks and uncertainties associated with the projected operations.

The accompanying Consolidated Statements of Loss and Comprehensive Loss for the year ended December 31, 2019 includes no material revenue or operating loss of SLWS because the dispensary had only one day of operations in 2019.

(Expressed in United States Dollars, except share amounts)

4. Accounts Receivable, net

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

	2020	2019
Trade receivables	$ 1,599,624	$ 1,370,198
Sales tax receivables	575,099	138,976
Total	2,174,723	1,509,174
Provision for expected credit losses	(242,721)	(37,672)
Total accounts receivable, net	$ 1,932,002	$ 1,471,502

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for expected credit losses.

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 a provision for expected credit losses is recorded where required. Credit risk is limited for receivables from retail customers as the majority of retail sales are transacted with cash. As at December 31, 2020 and 2019, there were $309,075 and $327,164, respectively, outstanding from debit card processors that is included within trade receivables.

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 a provision for expected credit losses. The provision for expected credit losses reflects the Company's best estimate of probable losses inherent in the trade receivables accounts.

Activity in the provision for expected credit losses was as follows:

	2020	2019
Balance, beginning of year	$ 37,672	$ -
Current year additions to provision for expected credit losses	208,601	37,672
Amounts reversed	(3,552)	-
Balance, end of year	$ 242,721	$ 37,672

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

	2020	2019
Current	$ 874,628	$ 785,539
1 - 30 days	162,980	142,006
31 - 60 days	230,202	161,279
61 - 90 days	163,988	-
Over 90 days	742,925	420,350
Total	$ 2,174,723	$ 1,509,174

Subsequent to the years ended December 31, 2020 and 2019, $nil and $134,077 of receivables were net settled with outstanding payables owing to vendors, respectively.

(Expressed in United States Dollars, except share amounts)

5. Inventories

The Company's inventory includes both purchased items and internally produced inventory. The Company's inventory was comprised of the following items as at December 31, 2020 and 2019:

	2020	2019
Raw materials	$ 643,839	$ 510,896
Work-in-process	931,910	597,132
Finished goods	2,210,100	1,545,999
Total	$ 3,785,849	$ 2,654,027

During the years ended December 31, 2020 and 2019, inventory expensed to cost of goods sold was $31,626,116 and $31,177,366, 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 estimated costs necessary to make the sale.

During the year ended December 31, 2019, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of $541,339, which was recorded as a component of the cost of goods sold - wholesale. There was no impairment recorded during the year ended December 31, 2020.

6. Biological Assets

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

	2020	2019
Balance, beginning of year	$ 1,167,125	$ -
Acquired as part of business acquisition	-	615,075
Costs capitalized	9,702,306	9,550,365
Changes in fair value less costs to sell due to biological asset transformation	4,174,784	(4,158,924)
Transferred to inventory upon harvest	(13,723,146)	(4,839,391)
Balance, end of year	$ 1,321,069	$ 1,167,125

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 the expected selling price less costs to sell per gram.

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 as at December 31, 2020 and 2019 include an allocation of depreciation of $173,776 and $230,266, respectively.

(Expressed in United States Dollars, except share amounts)

6. Biological Assets (continued)

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

		As at December 31, 2020		As at December 31, 2019	
	Assumptions:	**Input**	**10% change**	**Input**	**10% change**
i	Weighted average of expected loss of plants until harvest [a]	14%	$ 20,918	8%	$ 9,858
ii	Expected yields (dry grams of cannabis per plant) [b]	56 grams	$ 132,308	69 grams	$ 113,419
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	55%	$ 132,308	55%	$ 113,419
iv	Estimated selling price (per gram) [c]	$2.52 per gram dried flower $0.36 per gram dried trim	$ 218,046	$2.00 per gram dried flower $0.30 per gram dried trim	$ 228,916
v	After harvest cost to complete and sell (per gram)	$0.94 per gram dried flower $0.19 per gram dried trim	$ 85,738	$0.96 per gram dried flower $0.19 per gram dried trim	$ 115,496

[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 at December 31, 2020 and 2019, it was expected the Company's biological assets would yield 26 and 33 grams of dried flower per plant, respectively, and 30 and 36 grams of dried trim per plant, respectively.

[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 at December 31, 2020 and 2019, it is expected that the Company's biological assets will yield approximately 1,343,932 and 1,845,215 grams of dry cannabis flower, respectively, and 1,570,160 and 2,025,421 grams of dry trim, respectively, when harvested. The fair value adjustments on biological assets are presented separately on the Consolidated Statements of Loss and Comprehensive Loss.

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

(Expressed in United States Dollars, except share amounts)

7. Prepaid Expenses

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

	2020	2019
Excise taxes	$ 273,447	$ 229,617
Insurance and rent	471,530	206,785
Advances made to suppliers and consultants	248,369	115,023
Payroll and income taxes	281,540	32,339
Taxes and fees	6,923	90,555
Licenses and other	477,204	176,771
Total prepaid expenses	$ 1,759,013	$ 851,090

8. Investments and Advances

The changes in investments and advances were as follows for the years ended December 31, 2020 and 2019:

		Investments Equity Method	Investments FVTPL	Advances	Total
Balance as at December 31, 2018		$ -	$ -	$ -	$ -
Acquired as part of business acquisition		160,000	238,128	3,120,610	3,518,738
Additions	(a&d)	-	-	1,975,265	1,975,265
Interest accrued	(b)	-	-	39,929	39,929
Share of net loss	(a)	(160,000)	-	-	(160,000)
Impairment recorded	(c&d)	-	(238,128)	(2,793,820)	(3,031,948)
Settled as part of asset acquisition		-	-	(2,028,073)	(2,028,073)
Balance as at December 31, 2019		-	-	313,911	313,911
Transfers from deposits		229,953	-	-	229,953
Additions	(e&f)	270,327	-	-	270,327
Interest accrued		-	-	67,562	67,562
Impairments recorded	(b&e)	(250,280)	-	(381,473)	(631,753)
Balance as at December 31, 2020		$ 250,000	$ -	$ -	$ 250,000

(a) SLWS

On January 7, 2019, the Company acquired a 50% interest in SLWS valued at $160,000, as part of the PMACC/SJW business acquisition.

The 50% investment was subsequently accounted for under IAS 28 - *Investments in Associates and Joint Ventures*. For the period January 7, 2019 to October 8, 2019, the date the Company acquired the remaining 50% ownership interest, PMACC's share of the loss from operations of SLWS was approximately $160,000, reducing the carrying value of the investment on October 8, 2019 to $nil.

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 October 8, 2019, the Company advanced funds to SLWS to assist with finalizing the construction project for the dispensary. The outstanding advances receivable of $2,028,073 on October 8, 2019 represented settlement of pre-existing related party liabilities owed by SLWS to Harborside and was included as part of the purchase consideration.

8. Investments and Advances (continued)

(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). 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, California.

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 was $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 was to be lent to Altai under promissory notes bearing 12.0% annual interest. The promissory notes would become loans to subsidiary after completion of the LUX Acquisition; and

b. The Company, under its ownership of Altai, would assume $1,200,000 in payment obligations towards Altai's purchase of LUX. This obligation included four cash payments to LUX shareholders of $300,000 each.

As at December 31, 2019, the Company had advanced total funds of $1,800,000 to Altai in connection with the LUX Acquisition, 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 would become a loan to subsidiary assuming completion of the LUX Acquisition. Should the LUX Acquisition not ultimately close, the advances would be repaid to the Company.

As at December 31, 2019, management recorded an expected credit loss of $1,446,184 to an amortized cost of $313,911.

During the year ended December 31, 2020, the Company recognized interest income of $67,562. During the year ended December 31, 2020, management determined that the Company would not proceed with the LUX Acquisition. As a result, the Company recorded an impairment loss of $381,473 on the advance to Altai and accrued interest, which was recorded as a component of write-downs of receivables, investments and advances in the accompanying Consolidated Statements of Loss and Comprehensive Loss. The impairment represents the write-down of full carrying value and interest is no longer accruing.

(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. 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 Farm's 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).

8. Investments and Advances (continued)

The aggregate purchase price payable for the Agris Acquisition was $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 was to be settled as follows:

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

(ii) $1,000,000, convertible on closing into the Company's SVS at a price of 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 would assume as a subordinate note owing to a third-party lender who would be granted a put option by the Company in favor of the holder, where the note holder could 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 would have a general security interest over all assets of Walnut Oaks.

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

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

During the year ended December 31, 2019, management determined that the Company would not proceed with the Agris Acquisition. As Agris Farms wanted to renegotiate the terms of the original purchase price that were unfavorable to the Company, the transaction was not completed. Furthermore, as a result of changes in market conditions from when the original investment was made, the Company recorded an impairment loss of $238,128 on the investment of Agris Farms. The Company also recorded an expected credit loss of $339,042 on the advances as there was uncertainty with respect to their collectability. The impairment and expected credit loss represent the full write-down of the carrying value.

(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.

During the year ended December 31, 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 had determined was not in the best interests of its shareholders. As a result, the Company recorded an impairment loss of $1,000,000 on the non-refundable deposit in relation to the Airfield transaction. The impairment represents the full write-down of the carrying value.

8. Investments and Advances (continued)

(e) Accucanna, LLC

Accucanna, LLC ("Accucanna") owns a retail dispensary in Desert Hot Springs, California ("DHS"). In April 2018, the Company 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 years and the agreement shall renew automatically for two additional five-year periods, unless, on or before the date of renewal, the Company or Accucanna determine, in their sole discretion, that the agreements shall not renew. The Company recognized management service revenue under the agreement of $310,424 and $10,133 for the years ended December 31, 2020 and 2019, respectively, which was recorded as a component of other income (expense) on the accompanying Consolidated Statements of Loss and Comprehensive Loss.

In May 2018, the Company entered into a stock purchase agreement with Accucanna (the "Stock Purchase Agreement") 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.

The shares of Accucanna stock were to be issued at the Company's option only upon delivery of products equal to $500,000 wholesale value. As at April 2020, the Company had delivered products totaling $500,000, thereby completing the delivery targets stipulated in the Stock Purchase Agreement. During the year ended December 31, 2020, the Company reclassified the previously recorded amounts included in deposits to investments and advances.

During the year ended December 31, 2020, management reviewed current market conditions and industry values from when the original investment in Accucanna was made. As a result, the Company recorded an impairment loss of $250,280 which is recorded as write-downs of receivables, investments and advances in the accompanying Consolidated Statements of Loss and Comprehensive Loss. As at December 31, 2020, the amortized cost was $250,000. To date, the Company has not exercised its option under the Stock Purchase Agreement.

(f) Cachee Gold Mines Corp. ("Cachee")

On October 29, 2020, the Company entered into a share purchase agreement with Cachee for the sale by the Company of all of the issued and outstanding common shares in the capital of Lakeside Minerals Corp. ("Lakeside"), one of the Company's Canadian legacy subsidiaries. The Company received C$5,000 cash consideration and one special share warrant ("Consideration Warrant") of Cachee convertible at the option of the Company, for no additional consideration, immediately prior to the listing of common shares of Cachee (the "Cachee Shares") on a recognized Canadian stock exchange (the "Listing"), such number of Cachee Shares equal to C$100,000. The number of Cachee Shares to be issued upon exercise of the Consideration Warrant, shall be determined based on the lesser of:

i. the price of the Cachee Shares issued at the last financing undertaken by Cachee immediately prior to Listing; and

ii. the effective share exchange price in the event of an initial public offering, reverse takeover with another publicly listed issuer or other similar go-public transaction that results in the Cachee Shares being listed on a recognized stock exchange or quotation system in Canada or the United States.

During the year ended December 31, 2020, the Company recognized a gain of $78,540 on the sale of Lakeside for the value of the Consideration Warrant. Due to the uncertainty around the ability of Cachee to become publicly-listed, the Company recognized an impairment loss of $74,610, which is recorded as a component of write-downs of receivables, investments and advances in the accompanying Consolidated Statements of Loss and Comprehensive Loss. In addition, the Company recognized a write-down of $1,215,347 related to the write-off of an intercompany loan between Harborside and Lakeside at the time of sale, which is recorded as a component of impairment loss in the accompanying Consolidated Statements of Loss and Comprehensive Loss

(Expressed in United States Dollars, except share amounts)

8. Investments and Advances (continued)

In December 2020, FMICAI, a related party, entered into a share agreement with Cachee for the purchase of common stock in exchange for an equity interest in Cachee (Note 23).

9. Property, Plant and Equipment, net

As at December 31, 2020 and 2019, the Company's property, plant and equipment, net consisted of the following:

	Land	Agricultural buildings	Agricultural equipment	CIP	Furniture and fixtures	Vehicles	Office, computer and security equipment	Leasehold improvements	Total
At Cost									
As at December 31, 2018	$ 3,404,572	$ 5,150,611	$ 3,612,756	$ 6,022,308	$ 40,654	$ -	$ 725,574	$ 2,572	$ 18,959,047
Additions	-	3,749,792	2,261,167	378,248	33,376	-	112,864	2,537,675	9,073,122
Business acquisition	-	-	-	1,803,731	-	29,530	1,128,405	-	2,961,666
Reclass on completed phase of construction	-	-	-	(5,644,335)	-	-	-	-	(5,644,335)
As at December 31, 2019	3,404,572	8,900,403	5,873,923	2,559,952	74,030	29,530	1,966,843	2,540,247	25,349,500
Additions	-	103,320	96,205	340,524	28,393	18,424	19,450	148,412	754,728
Disposals and transfers	-	-	(5,926)	-	-	(19,378)	(19,450)	-	(44,754)
Impairment loss	-	-	-	-	-	-	-	(2,283,557)	(2,283,557)
Reclass on completed phase of construction	-	2,064,770	-	(2,064,770)	-	-	-	-	-
As at December 31, 2020	$ 3,404,572	$ 11,068,493	$ 5,964,202	$ 835,706	$ 102,423	$ 28,576	$ 1,966,843	$ 405,102	$ 23,775,917
Accumulated depreciation									
As at December 31, 2018	-	689,569	745,925	-	13,114	-	273,908	200	1,722,716
Depreciation expense	-	523,915	864,332	-	6,109	11,765	283,754	152,894	1,842,769
As at December 31, 2019	-	1,213,484	1,610,257	-	19,223	11,765	557,662	153,094	3,565,485
Disposals	-	-	(198)	-	-	(11,945)	(2,342)	-	(14,485)
Impairment loss	-	-	-	-	-	-	-	(158,096)	(158,096)
Depreciation expense	-	733,485	1,172,347	-	15,092	7,354	385,549	159,579	2,473,406
As at December 31, 2020	$ -	$ 1,946,969	$ 2,782,406	$ -	$ 34,315	$ 7,174	$ 940,869	$ 154,577	$ 5,866,310
Net Book Value									
As at December 31, 2019	3,404,572	7,686,919	4,263,666	2,559,952	54,807	17,765	1,409,181	2,387,153	21,784,015
As at December 31, 2020	$ 3,404,572	$ 9,121,524	$ 3,181,796	$ 835,706	$ 68,108	$ 21,402	$ 1,025,974	$ 250,525	$ 17,909,607

Depreciation expense of $2,473,406 and $1,842,769 was recorded for the years ended December 31, 2020 and 2019, respectively. Depreciation expense included in cost of goods sold - wholesale was $2,023,820 and $1,430,573 for the years ended December 31, 2020 and 2019, respectively.

Management determined that the Company's leasehold improvements related to SLWS were impaired as at December 31, 2020 due to the ongoing legal issues related to the lease (Note 11, 24 and 28). Accordingly, the Company recorded an impairment loss of $2,125,332.

(Expressed in United States Dollars, except share amounts)

10. Intangible Assets and Goodwill

During the year ended December 31, 2020, the Company acquired $4,042,000 of intangible assets as a result of the FGW Agreement (Note 3). The Company has assigned an indefinite life to the license.

During the year ended December 31, 2019, the Company acquired $54,159,006 of intangible assets and recognized $51,010,630 of goodwill as a result of its acquisitions (Note 3).

A reconciliation of the beginning and ending balances of intangible assets and goodwill for the years ended December 31, 2020 and 2019 was as follows:

	Intangible Assets			
	Licenses	**Trademark**	**Total**	**Goodwill**
At Cost				
Balance as at December 31, 2018	**$ -**	$ -	$ -	**$ -**
Additions:				
Acquisition of PMACC and SJW	51,800,000	-	51,800,000	37,909,991
Acquisition of Lineage (RTO)	239,970	113,899	353,869	13,100,639
Acquisition of SLWS	2,005,137	-	2,005,137	-
Total additions	54,045,107	113,899	54,159,006	51,010,630
Impairment	(212,223)	(67,233)	(279,456)	(36,644,575)
Balance as at December 31, 2019	53,832,884	46,666	53,879,550	14,366,055
Additions:				
FGW Agreement	4,042,000	-	4,042,000	-
Balance as at December 31, 2020	$ 57,874,884	$ 46,666	$ 57,921,550	$ 14,366,055
Accumulated Amortization				
As at December 31, 2019	**-**	**-**	-	**-**
Amortization	-	13,659	13,659	-
As at December 31, 2020	$ -	$ 13,659	$ 13,659	**$ -**
Net book value				
As at December 31, 2019	53,832,884	46,666	53,879,550	14,366,055
As at December 31, 2020	$ 57,874,884	$ 33,007	$ 57,907,891	$ 14,366,055

Amortization expense of $13,659 and $nil was recorded for the years ended December 31, 2020 and 2019, respectively.

As at December 31, 2020 and 2019, the Company performed its annual impairment tests for goodwill and intangible assets. The recoverable amount of all CGUs was determined based on fair value less costs of disposal ("FVLCD") using Level 3 inputs in a discounted cash flow model, as the FVCLD was higher than the CGUs value in use ("VIU"). The key assumptions used in the estimates of the recoverable amounts are described as follows:

- Cash flows: Estimated cash flows were projected based on the Company's business plans, which are based on actual operating results from internal sources as well as industry and market trends. The forecast were extended to a total of five year (with a terminal year thereafter);

(Expressed in United States Dollars, except share amounts)

10. Intangible Assets and Goodwill (continued)

- Terminal value growth rate: The terminal growth rate of 1.5% to 2.5% for 2020 and 2019 was based on historical and projected consumer price inflation, historical and projected economic indicators, and projected industry growth; and

- Discount rate: The post tax discount rate for California operating segment was 17% (12% - 2019). No post tax discount rate was used for the Oregon operating segment (21% - 2019).

As at December 31, 2020, management determined there was no impairment for goodwill and intangible assets. As at December 31, 2019, management determined impairment charges of $279,456 on the intangible assets, and that carrying values exceeds the recoverable amounts of goodwill by $24,078,980 and $12,565,595 for the California and Oregon reporting units, respectively. These impairment charges totaling $36,924,031 are recognized in impairment loss in the accompanying Consolidated Statements of Loss and Comprehensive Loss.

11. Right-of-use Assets and Lease Liabilities

Right-of-use Assets

	Right-of-use Assets - buildings
Cost	
Balance as at December 31, 2019	$ 7,172,185
Additions	684,195
Write-off from lease modification	(2,138,010)
Balance as at December 31, 2020	$ 5,718,370
Accumulated amortization	
Balance as at December 31, 2019	$ 640,199
Amortization expense	533,484
Write-off from lease modification	(163,147)
Balance as at December 31, 2020	$ 1,010,536
Net book value	
As at December 31, 2019	6,531,986
As at December 31, 2020	$ 4,707,834

Lease Liabilities

The Company's lease liabilities consist of various property leases used for the sale of cannabis products. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The incremental borrowing rate for the additions during the years ended December 31, 2020 and 2019, was 8.5% and 15.0%, respectively, for leases acquired in acquisitions.

(Expressed in United States Dollars, except share amounts)

11. Right-of-use Assets and Lease Liabilities (continued)

In August 2020, the Company commenced a demand for arbitration and relief in respect to a number of alleged violations of the terms and conditions of the property lease for SLWS (Note 24). Subsequent to the year ended December 31, 2020, Management determined that the Company would not exercise the extension options related to the SLWS lease that had been included at the commencement date. Accordingly, the Company remeasured the lease through May 31, 2021, the initial lease termination date, resulting in a gain from the lease modification of $140,469, which is included as a component of impairment loss in the accompanying Consolidated Statements of Loss and Comprehensive Loss. In addition, the Company recorded an impairment loss related to the property's leasehold improvements (Note 9). Subsequent to the year ended December 31, 2020, the court ruled against SLWS and entered a judgment that included forfeiting the property lease and on April 1, 2021, the Company filed a request for temporary stay of eviction. The request for a stay was granted and the parties have mutually agreed to stay the eviction until May 15, 2021 while they negotiate a possible extension of the lease (Note 28).

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

Balance as at December 31, 2019	$ 7,903,365
Acquired leases	684,195
Lease payments	(1,191,666)
Write-off from lease modification	(2,115,332)
Interest expense	1,166,419
Ending lease liability	6,446,981
Less: current portion	(487,574)
Non-current lease liability	$ 5,959,407

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

Due within one year	$ 1,347,535
Due within one to five years	4,488,748
Due after five years	8,202,985
Total	$ 14,039,268

The Company recognized no material expenses related to short-term leases and leases of low-value assets for the years ended December 31, 2020 and 2019.

12. Accounts Payable and Accrued Liabilities

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

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

	2020	2019
Accounts payable	$ 7,061,561	$ 7,481,697
Accrued liabilities	8,102,545	6,381,087
Accrued payroll	2,034,609	1,880,822
Total accounts payable and accrued liabilities	$ 17,198,715	$ 15,743,606

(Expressed in United States Dollars, except share amounts)

13. Note Payable and Accrued Interest

On July 14, 2017, the Company entered into a sales transaction with CFP Fund I, LLC ("CFP") for the Production Campus. The total sale price for the Production Campus 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 Production Campus, the Company entered into a lease agreement (the "Lease") with CFP for the property and equipment located at the Production Campus. The Lease commenced on July 18, 2017, with a term of 108 full months expiring on July 18, 2026. The Company has the option to extend the term of the Lease for an additional three years.

The Lease grants the Company a call option to purchase the property under the terms set forth in the agreement. Beginning on the 37th month after the commencement of the Lease, and through the term of the Lease and any extension period, the Company has the ability to exercise its call option for two months, at every six-month interval. In the event that the Company desires to purchase the property prior to the 37th month after the commencement of the Lease, the Company may purchase the property subject to a make whole provision which guarantees the Landlord a 15.0% internal rate of return for the first three years. On February 25, 2021, the Company provided notice to CFP with its intent to exercise its call option to purchase the Production Campus (Note 28).

The Lease also grants CFP a put option (the "put option") to sell the Production Campus 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 Production Campus 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 Production Campus through construction initiatives for additional cultivation greenhouse space. Therefore, the Company’s risk of loss had not transferred at the time of sale. The transaction was recorded as a financing arrangement for the approximately $9.1 million initially received as part of the agreement. Payments are applied over the term of the Lease, with the Company exercising their approximately $14.5 million purchase option at the end of the Lease term. As a result of the put option, 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 Production Campus. Interest is accreted using the effective interest rate method during the Lease term based on the $9,080,000 loan and a purchase at the end of the Lease term. The balance includes $9,080,000 principal and accrued interest of $1,646,421 and $1,124,744 as at December 31, 2020 and 2019, respectively.

A reconciliation of the beginning and ending balance of the note payable and accrued interest for the years ended December 31, 2020 and 2019 was as follows:

	2020	2019
Balance, beginning of year	$ 10,204,744	$ 11,489,474
Cash payments	-	(1,780,000)
Interest accruals	1,384,279	1,312,470
Interest cash payments	(862,602)	(817,200)
Balance, end of year	$ 10,726,421	$ 10,204,744

(Expressed in United States Dollars, except share amounts)

13. Note Payable and Accrued Interest (continued)

Future minimum payments due from the Company under the lease are as follows:

2021	$ 908,004
2022	908,004
2023	953,400
2024	998,796
2025	998,796
Thereafter	14,971,539
Total	$ 19,738,539

14. Convertible Debentures

Series B Debentures

A reconciliation of the beginning and ending balances of the Series B Debenture Units as at December 31, 2019 was as follows:

Balance as at January 1, 2019	$ 16,036,285
Cash additions	1,857,165
Derivative component of debt	(241,301)
Foreign exchange gain, net	130,823
Interest accretion	3,101,203
Conversion on RTO Transaction	(20,884,175)
Balance as at December 31, 2019	$ -

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).

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 Transaction, 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 7.0% 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 was comprised of CAD $1,000 principal amount of 12.0% unsecured convertible debentures ("Series B Debentures") and 87 share purchase warrants ("Series B Warrants").

14. Convertible Debentures (continued)

Series B Debentures (continued)

The Series B Debentures were governed by a debenture indenture dated as at 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 C$6.90 per share, without further action on the part of the holders of the Series B Debentures.

The Series B Warrants were governed by a trust indenture dated 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. 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. The Series B Warrants had an exercise price of C$8.60 per share and expired on October 30, 2020.

Each Series B Debenture Unit contained a conversion feature and a Series B Warrant. The conversion feature and Series B 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 Series B Warrants issued are denominated in a currency other than the Company's functional currency.

In failing the equity classification, the conversion feature and Series B 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 Debentures (including accrued interest of $20,884,175) were converted into shares of FLRish Series B Common Stock. Each share of FLRish Series B Common Stock was exchanged for 1/100 of an MVS upon the closing of the RTO Transaction. The Series B Warrants expired on October 30, 2020. There were nil Series B Warrants outstanding as at December 31, 2020.

Secured Convertible Notes

On August 29, 2018, Lineage acquired Rosebuds Bakery, LLC d/b/a Terpene Station Eugene 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 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 multiplied by 41.818182 which equates approximately C$14.64. Interest will accrue on the principal amount at 12.0% 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 (paid on October 6, 2020); and

(Expressed in United States Dollars, except share amounts)

14. Convertible Debentures (continued)

Secured Convertible Notes (continued)

(iii) The balance on the third anniversary of the Secured Convertible Notes, if the Conversion Option is not exercised 30 days before the three-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, the host debt instrument was fair valued using a market rate of approximately 23.0% and the conversion feature was fair valued (Note 15). 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.

As at December 31, 2020 and 2019, changes to the Secured Convertible Notes was as follows:

Balance as at December 31, 2018	$ -
Secured Convertible Notes assumed on RTO Transaction	690,247
Interest and accretion expense	49,259
Principal amount paid	(150,000)
Balance as at December 31, 2019	589,506
Interest and accretion expense	34,402
Principal amount paid	(150,000)
Balance as at December 31, 2020	$ 473,908

As at December 31, 2020, the total outstanding amount is due within the next 12 months.

15. 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 at 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 liability on acquisition	Note 3	-	-	-	126,358	126,358
Change in fair value of derivative liabilities		(5,343,144)	(5,994,217)	(3,826,709)	(70,925)	(15,234,995)
Conversion to common shares		(3,946,462)	-	-	-	(3,946,462)
Balance as at December 31, 2019		-	4,106	29,030	55,433	88,569
Change in fair value of derivative liabilities		-	(4,106)	(12,188)	(51,095)	(67,389)
Balance as at December 31, 2020		$ -	$ -	$ 16,842	$ 4,338	$ 21,180

(Expressed in United States Dollars, except share amounts)

15. Derivative Liabilities (continued)

(a) Series B Debenture Unit Derivative Liabilities

As detailed in Note 14, 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 ("Monte Carlo 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 3), 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 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 Monte Carlo model uses certain Level 2 and Level 3 inputs in its valuation model. The key Level 2 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the SVS, (ii) the risk-free interest rate, and (iii) the expected life of the instruments. The risk-free interest rate is based on data from the Federal Reserve Statistical Release and 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 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 year ended December 31, 2019:

	February 6, 2019	May 30, 2019
Risk-free interest rate	1.70 - 1.83%	N/A
Exercise price - U.S. $	5.23	4.21
Share price - U.S. $	3.28	4.68
Expected volatility	71.7 - 116.4 %	N/A
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 year ended December 31, 2019:

	February 6, 2019	December 31, 2019
Risk-free interest rate	1.70 - 1.83%	1.60%
Exercise price - U.S. $	6.53	6.62
Share price - U.S. $	3.28	0.52
Expected volatility	71.7 - 116.4%	95.3%
Expected remaining life	1 year	0.83 year
Fair value	$ 93,996	$ 4,106

As at December 31, 2020, the Series B conversion feature and warrant derivative liabilities had expired and were not outstanding.

(Expressed in United States Dollars, except share amounts)

15. Derivative Liabilities (continued)

(b) Series D Offerings Warrant Liability

On May 17, 2019, pursuant to an agency agreement among FLRish, AltaCorp Capital Inc. and FMI, a related party to the Company (Note 23), (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 $13,037,856 (CAD $17,559,038). In addition, FLRish completed a concurrent non-brokered offering of 298,547 Subscription Receipts for gross proceeds of $1,551,698 (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 $14,589,284 (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 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 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 the Company, 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 years ended December 31, 2020 and 2019:

	2020	2019
Risk-free interest rate	0.09%	1.60%
Exercise price - U.S. $	$ 6.84	$ 6.74
Share price - U.S. $	$ 1.53	$ 0.52
Expected volatility	104.90%	99.80%
Expected remaining life	0.38 year	1.38 year
Fair value	$ 16,842	$ 29,030

(Expressed in United States Dollars, except share amounts)

15. Derivative Liabilities (continued)

(c) Secured Convertible Note Conversion Feature

As part of the RTO Transaction, the Company assumed Secured Convertible Notes (Note 14). The fair value of the conversion feature was determined using a Black-Scholes-Merton option pricing model with the following assumptions as at December 31, 2020 and 2019:

	2020	2019
Share price - CAD $	CAD$1.96	CAD$0.67
Conversion price - CAD $	CAD$14.64	CAD$14.64
Expected remaining life	0.66 year	0.66 - 1.66 years
Volatility *	89.16%	114.96% - 133.88%
Risk-free interest rate	0.09%	1.43% - 1.47%

* Expected volatility was based on actual volatility and historical volatility of comparable companies for the years ended December 31, 2020 and 2019, respectively.

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.

16. 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 ordinary and necessary business expenses. This can result in permanent tax differences resulting from normal business expenses which are deemed non-allowable under IRC Section 280E. Many of the central issues relating to the interpretation of Section 280E remain unsettled, and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E). IFRIC 23 - *Uncertainty over Income Tax Treatments* 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 U.S. Tax Court, the Company has determined that a reserve for an uncertain tax position should be recorded for all years subject to statutory review. Although the Company, as described below, is actively engaged in working towards a settlement agreement and subsequent repayment plan with the Internal Revenue Service, an uncertain tax position has been recorded based on the unknown outcome of the settlement discussions. As at December 31, 2020, the reserve totaled $37,758,875 (December 31, 2019 $36,500,000), a sum which includes the separate tax proceedings described below. During the year ended December 31, 2020, the Company recognized a gain in the amount of $1,435,603 from the reduction in the provision for SJW related to the 2016 tax year that passed the statute of limitations. The gain was offset by an increase to the provision for SJW based on the outcome of the Tax Court proceedings as discussed below.

The Company has engaged outside counsel in an attempt to successfully negotiate the settlement and subsequent payment of its potential liabilities under IRC Section 280E, but does not currently expect any resultant potential liabilities or any possible payments resulting from the cases to be resolved within 12 months of the issuance date of these consolidated financial statements.

(Expressed in United States Dollars, except share amounts)

16. Provisions (continued)

PMACC

PMACC is currently involved in two separate tax proceedings. The first, *PMACC v. Commissioner*, is an appeal to the United States Court of Appeals for the Ninth Circuit of an adverse Tax Court decision that was issued on November 29, 2018. In that decision, the Tax Court disallowed PMACC's allocation of certain items of expense to cost of goods sold, holding that they were instead deductions barred by IRC Section 280E. At issue are PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012. The Tax Court held that the expenses were ordinary and substantiated business expenses but, because PMACC's business consists of trafficking in a Schedule I controlled substance, the expenses must be disallowed. On October 21, 2019, after a review process under Rule 155, the Tax Court determined that PMACC's total liability was $11,013,237 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 year end. In December 2019, PMACC appealed the Tax Court decision to the United States Court of Appeals for the Ninth Circuit, which heard oral arguments in the case on February 9, 2021 and affirmed the Tax Court decision on April 22, 2021 (Note 28).

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, by disallowing all deductions. The Company filed its initial petition in this case to the Tax Court on February 13, 2020. This matter is not expected to be heard on its merits for several years, by which time the Company expects that either the Ninth Circuit appeal mentioned above would presumably dictate the outcome of this proceeding, or the Company will have successfully negotiated to an Offer in Compromise and settlement agreement.

SJW

SJW is involved in two pending U.S. Tax Court cases. The first case involves the 2010, 2011, and 2012 tax years, and in this case, the IRS asserted a tax deficiency of $2,120,215. The second case involves the 2014 and 2015 tax years and in the second case the IRS asserted that SJW owed an additional $2,064,363 in taxes and penalties. Both of these proceedings involve substantially the same issues as the PMACC cases.

As described in Note 28, on February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to the cases for SJW. The Company accrued an additional $523,600 related to the 2015 tax year as at December 31, 2020 based on the deficiencies assessed by the court.

17. General and Administrative Expenses

For the years ended December 31, 2020 and 2019, general and administrative expenses consisted of the following:

	2020	2019
Advertising and promotion	$ 947,285	$ 1,178,331
Bad debt expense	1,447	256,608
Banking and processing fees	784,621	885,076
Other general administrative	59,194	109,840
Office and general expenses	4,503,393	3,394,658
Salaries and benefits	11,219,052	12,905,262
Taxes and licenses	384,967	140,302
Travel and entertainment	263,698	443,986
Total	$ 18,163,657	$ 19,314,063

(Expressed in United States Dollars, except share amounts)

18. 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 ITA) 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 be not subject to double taxation.

The Company's income tax expense is allocated as follows:

	2020	2019
Current tax	$ 5,580,674	$ 4,191,500
Deferred tax	534,458	(173,282)
Income tax expense	$ 6,115,132	$ 4,018,218

The net tax provision differs from that expected by applying the U.S. federal tax rate of 21.0% to net loss before income taxes for the following reasons:

	2020	2019
Net loss before income taxes	$ (5,831,558)	$ (45,439,897)
Expected income tax benefit based on statutory rate	(1,224,627)	(9,542,378)
Adjusted to expected income tax benefit		
Difference due to state rate	(175,902)	(1,713,043)
Share-based compensation	955	7,745
Section 280E adjustment	4,659,496	5,010,902
Fair value change in derivative liability	-	(3,199,076)
Other expense not deductible for tax	(217,891)	357,617
Financing fees	-	571,231
Changes in benefit of tax asset not recognized	3,073,101	5,822,910
Changes in fair value of Series A preferred shares	-	(956,440)
Charges for impairment	-	7,658,750
Income tax expense	$ 6,115,132	$ 4,018,218

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The following table summarizes the components of deferred taxes for the years ended December 31, 2020 and 2019:

	2020	2019
Deferred tax assets		
Non-deductible interest	$ 162,910	$ -
Net operating losses	81,767	-
Inventories	-	232,322
Biological assets	-	136,285
Total deferred tax assets	244,677	368,607
Deferred tax liabilities		
Intangible assets	(15,464,444)	(15,477,570)
Property, plant and equipment	(538,694)	(307,193)
Biological assets	(150,164)	-
Right-of-use assets	(131,196)	-
Inventories	(125,188)	-
Other	(20,648)	(235,042)
Total deferred tax liabilities	(16,430,334)	(16,019,805)
Net deferred tax liabilities	$ (16,185,657)	$ (15,651,198)

(Expressed in United States Dollars, except share amounts)

18. Income Taxes (continued)

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 the net deferred tax liabilities during the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Balance, beginning of year	$(15,651,198)	$ -
Recognized in loss	(534,459)	173,283
Net deferred tax liability from acquisitions	-	(15,824,481)
Balance, end of year	$(16,185,657)	$(15,651,198)

Deferred tax assets have not been recognized in respect of the following deductible temporary differences because it is not probable that future taxable profit will be available against which the Company can use the benefits:

	2020	2019
Provision for expected credit losses	$ 3,230,856	$ 3,213,801
Non-capital losses carryforward - Canada	10,989,324	8,033,991
Federal net operating loss	25,853,271	-
State net operating loss	34,390,770	-
Intangibles	9,434	-
Property, plant and equipment	746,480	-
Non-deductible interest	5,091,314	-
Other assets	244,156	-
Investments, capital gain (Canada)	74,610	-
Capital losses	2,137,574	2,421,725
Right of usage	542,296	1,381,712
Share issuance costs	-	198,151
Resource pools - Mineral Properties	620,742	620,742
Non-capital losses carry forward - U.S.	-	37,906,388
Amortization	-	279,159
Accrued interest	-	1,124,127
Discount on loans payable	1,890,570	1,890,570
Charitable contribution carryover	29,513	5,174
Stock options expense NQSO	1,285,536	1,209,581
Interest not deductible	1,953,577	1,949,140
Investment lineage Canadian entity	934,059	2,454,298
	$ 90,024,082	$ 62,688,559

The U.S. net capital losses in the amount of $2,137,574 will start expiring in 2023.

(Expressed in United States Dollars, except share amounts)

18. Income Taxes (continued)

Utilization of U.S. net operating loss carryforwards may be subject to limitations in the event of a change in ownership as defined under U.S. IRC §382 and similar state provisions. An "ownership change" is generally defined as a cumulative change in the ownership interest of significant stockholders over a three-year period of more than 50 percentage points. The Company believes a change in ownership, as defined by U.S. IRC §382, has occurred. This will limit the Company's ability to reduce future income by net operating loss carryforwards. A formal §382 study has not been prepared, so the exact effects of the ownership change are not known at this time.

The Company has income tax loss carryforwards that, if unused, will expire as at December 31:

	U.S.	Canada	Total
2030	$ -	$ 2,098,296	$ 2,098,296
2034	643,938	-	643,938
2035	1,209,098	-	1,209,098
2036	5,525,372	175,746	5,701,118
2037	2,453,530	159,769	2,613,299
2038	-	883,293	883,293
2039	8,428,855	3,306,885	11,735,740
2040	20,574,307	4,365,336	24,939,643
Indefinite life	21,798,310	-	21,798,310
Total	$ 60,633,410	$ 10,989,325	$ 71,622,735

19. Share Capital

FLRish Share Capital

On May 15, 2019, the FLRish 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 Transaction, the above classes of stock were converted into shares of the Company.

(Expressed in United States Dollars, except share amounts)

19. Share Capital (continued)

The following is a reconciliation of the issued and outstanding shares as at December 31, 2020 and 2019:

	Series A-1 Preferred	Series A-2 Preferred	Series A Common	Series B Common	Series D Common	Subordinate Voting Shares (SVS)	Multiple Voting Shares (MVS)
Balance, December 31, 2018	6,250,000	1,422	4,446,747	11,243,264	-	-	-
Issuance in lieu of Series B Convertible Debentures interest payment	-	-	-	399,153	-	-	-
Issuance as per PMACC purchase option	-	-	-	4,051,248	-	-	-
Issuance of subscription receipts	-	-	-	-	2,806,981	-	-
Issuance on conversion of Series B Debentures	-	-	-	8,085,008	-	-	-
Issuance on exercise of options	-	-	1,315,128	-	-	-	-
Share conversion immediately preceding RTO	(6,250,000)	(1,422)	-	6,251,422	-	-	-
Conversion to SVS and MVS on RTO	-	-	(5,761,875)	(30,030,095)	(2,806,981)	6,340,202	322,587.49
Issuance on RTO Transaction	-	-	-	-	-	1,817,110	-
Issuance on RTO and M&A advisory services	-	-	-	-	-	440,183	-
Issuance as bonus shares to Lineage shareholders	-	-	-	-	-	1,070,670	-
Issuance on exercise of options post-RTO	-	-	-	-	-	170,797	-
Conversion of MVS to SVS	-	-	-	-	-	9,181,542	(91,815.42)
Balance, December 31, 2019	-	-	-	-	-	19,020,504	230,772.07
Conversion of MVS to SVS	-	-	-	-	-	6,132,450	(61,324.50)
Issuance of new shares	-	-	-	-	-	-	9,648.85
Issuance on exercise of options	-	-	-	-	-	848,654	-
Issuance of restricted share awards	-	-	-	-	-	534,000	-
Balance, December 31, 2020	-	-	-	-	-	26,535,608	179,096.42

Series A-1 and Series A-2 Preferred Stock

The Series A-1 Preferred Stock of FLRish was a class of voting preferred stock, one 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. Shares of Series A-1 Preferred Stock accrued dividends at 8% per annum from the date of issuance, whether declared or not, was 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 terminated on the occurrence of a qualified acquisition or public offering. If a qualified transaction did not occur prior to October 30, 2019, the Series A-1 Preferred Shares were 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 Field & Company, LLC ("Murray Field") note.

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

19. Share Capital (continued)

Series A-1 and Series A-2 Preferred Stock (continued)

As part of the RTO Transaction, the issued and outstanding shares of Series A-1 Preferred Stock and Series A-2 Preferred Stock were converted, pursuant to their terms, into shares of Series B Common Stock, which were each ultimately converted into 1/100 of a MVS. Immediately prior to the RTO Transaction, the shares of Series A-1 Preferred Stock and Series A-2 Preferred Stock 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 of $4,554,475 on May 30, 2019 in the fair value gain in derivative liabilities and preferred shares in the 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 voting right per share and was to be adjusted in the event of any subdivision or combination of share of Series B Common Stock or shares of Series C Common Stock. Series A Common Stock also possessed certain anti-dilution characteristics that were intended to preserve value among the holders of Series A Common Stock. The total number of shares of Series A Common Stock authorized for issuance was 11,000,000. The anti-dilution characteristics provided that the pre-Series A Common Stock subject to options or reserved for issuance that was not utilized or was otherwise cancelled would be reallocated among the holders of Series A Common Stock pro rata. Additionally, upon an acquisition any paid in capital would be allocated among the holders of Series A Common Stock, or a substitution of equivalent rights in a new plan would occur.

Series B Common Stock

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

As at May 30, 2019, an aggregate of 399,153 shares of Series B Common Stock were issued to holders of debentures in satisfaction of the payment of accrued interest as part of the RTO Transaction. As part of the RTO Transaction, the issued and outstanding shares of Series B Common Stock were exchanged for 1/100 of an MVS per 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

The 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 shares of Series D Common Stock were exchanged for SVS on a one for one basis.

Lineage Share Capital

Lineage Common Shares

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 41.818182 to one. The 75,997,868 Lineage Common Shares were converted into 1,817,110 SVS on closing of the RTO Transaction.

19. Share Capital (continued)

Lineage Share Capital (continued)

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, 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 would 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 would also be automatically be converted into 275,325 SVS if the Company terminated 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 terminated 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 would 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 would also be automatically converted into 336,508 SVS if the Company terminated 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 terminated 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 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 December 31, 2020, the Series B Special Shares and C Special Shares had yet to be redeemed by the Company and remain outstanding. Subsequent to December 31, 2020, the Board formally redeemed and cancelled the Series B Special Shares and Series C Special Shares (Note 28).

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 (Note 3).

19. Share Capital (continued)

Harborside Share Capital (continued)

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 41.818182 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 SR Share at an exercise price of C$8.75 per share until May 17, 2021, subject to adjustment in certain circumstances (Note 15). 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 Model. The key assumptions used have been discussed in Note 15.

In connection with the Concurrent Offering, the Agents, which included FMI, a related party to the Company post- RTO Transaction (Note 23), received an aggregate cash fee equal to 7.0% 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 7.0% 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 23).

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 in the Consolidated Statements of Loss and Comprehensive Loss.

(Expressed in United States Dollars, except share amounts)

19. Share Capital (continued)

Going public stock success fee (continued)

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 compensation in the Consolidated Statements of Loss and Comprehensive Loss.

20. Contributed Surplus

Stock Options

Prior to June 30, 2020, the Company maintained an equity incentive plan (the "Plan") whereby certain key employees, officers, directors, consultants and advisors could be granted stock options, RSAs, restricted share units, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

The stock options which were awarded under the Plan 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.

On June 30, 2020, the Company adopted a new equity incentive plan (the "New Plan") whereby certain key employees, officers, directors, consultants and advisors may be granted stock options, RSAs, restricted share units, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

The stock options awarded under the New Plan vest in accordance with the terms established by the board at the time of grant. The New Plan was ratified by the Company's shareholders on November 24, 2020.

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

	Number of options outstanding	**Weighted average exercise price $**
Balance, December 31, 2018	5,212,944	1.34
Issuance of replacement options	625,000	0.05
Options exercised	(1,480,128)	0.05
Acquired options on RTO	38,044	6.74
Options forfeited/cancelled	(89,959)	0.85
Balance, December 31, 2019	4,305,901	1.66
Options exercised	(848,654)	0.05
Options forfeited/cancelled	(296,349)	0.05
Options granted	3,475,000	0.76
Balance, December 31, 2020	6,635,898	1.58

(Expressed in United States Dollars, except share amounts)

20. Contributed Surplus (continued)

During the year ended December 31, 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.

During the years ended December 31, 2020 and 2019, the Company recorded an aggregate share-based compensation expense of $1,054,124 and $1,223,051, respectively, for all stock options vesting during these periods. During the years ended December 31, 2020 and 2019, the Company received cash consideration of $42,433 and $79,977, respectively, for the exercise of 848,654 and 1,480,128 vested options, respectively.

As at December 31, 2020, the Options outstanding and exercisable for SVS and with the corresponding exercise price and weighted average remaining life was as follows:

Date of grant	Expiry date	Number of options outstanding	Number of options exercisable	Exercise price (USD)	Weighted average remaining life
September 30, 2020	September 30, 2021	300,000	300,000	$ 0.856	0.75
August 1, 2016	November 24, 2021	1,927	1,927	$ 0.050	0.90
July 26, 2017	November 24, 2021	20,000	20,000	$ 0.050	0.90
April 25, 2018	November 24, 2021	24,000	6,722	$ 4.150	0.90
May 24, 2018	November 24, 2021	4,783	4,783	$ 8.207	0.90
December 14, 2018	November 24, 2021	7,174	7,174	$ 5.419	0.90
September 1, 2020	November 24, 2021	610,000	610,000	$ 0.746	0.90
July 5, 2019	July 5, 2022	625,000	625,000	$ 0.055	1.51
May 24, 2018	May 24, 2023	14,946	14,946	$ 8.207	2.39
December 14, 2018	December 14, 2023	11,141	11,141	$ 5.419	2.95
September 1, 2020	September 1, 2025	1,725,000	961,250	$ 0.746	4.67
December 23, 2020	December 23, 2025	840,000	-	$ 1.437	4.98
August 1, 2016	August 1, 2026	620,650	620,650	$ 0.050	5.59
July 26, 2017	July 27, 2027	159,235	149,860	$ 0.050	6.57
December 4, 2017	December 4, 2027	27,375	27,375	$ 4.150	6.93
April 25, 2018	April 25, 2028	1,251,667	1,226,667	$ 4.150	7.32
May 7, 2018	May 7, 2028	15,000	15,000	$ 4.150	7.35
May 15, 2018	May 15, 2028	308,000	308,000	$ 0.039	7.38
June 25, 2018	June 25, 2028	10,000	10,000	$ 4.150	7.49
September 12, 2018	September 12, 2028	50,000	45,833	$ 4.150	7.70
November 7, 2018	November 7, 2028	10,000	10,000	$ 5.310	7.86
Total		6,635,898	4,976,328		4.65

The weighted average remaining contractual life of outstanding options as at December 31, 2020 and 2019 was 4.65 and 7.0 years, respectively.

(Expressed in United States Dollars, except share amounts)

20. Contributed Surplus (continued)

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 RSAs are issued to Participants, the shares issued vest over 24 months from the date of grant. No additional RSAs were granted during the years ended December 31, 2020 and 2019. During the year ended December 31, 2020, 534,000 of the original 769,000 RSAs granted in 2018 were issued. The remaining balance of RSAs as at December 31, 2020 was 235,000.

The fair value on the grant date of the RSAs was measured at $2,614,000 (or $3.40 per RSA), using the Monte Carlo 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 years ended December 31, 2020 and 2019, the Company recorded share-based compensation expense of $4,547 and $805,216, respectively, in relation to the vesting of the RSAs. These amounts included acceleration of vesting for two former officers of the Company based on separation agreements reached upon termination during 2019.

Lineage stock options

On May 30, 2019, the Company issued 134,232 options to former option holders of Lineage (Note 3). Of these options, 90,391 expired on August 28, 2019, 90 days after the RTO Transaction, in accordance with the Plan.

21. Reserve for Warrants

The activity for warrants outstanding for the years ended December 31, 2020 and 2019, is summarized as follows:

	Number of warrants outstanding	Weighted average exercise price CAD	Weighted average exercise price USD
Balance, December 31, 2018	4,087,518	8.47	6.27
Issuance of Series D Warrants	2,806,981	8.75	6.69
Issuance of SR Broker Warrants	160,775	7.00	5.35
Issuance of warrants on RTO Transaction	290,058	13.59	10.39
Issuance of Broker Warrants on RTO Transaction	18,604	10.45	7.99
Issuance of Series B Warrants	213,150	8.60	6.45
Balance, December 31, 2019	7,577,086	8.75	6.57
Warrants expired	(3,989,124)	8.60	6.65
Warrants expired	(308,662)	13.40	10.53
Balance, December 31, 2020	3,279,300	8.49	6.67

There were no warrants issued during the year ended December 31, 2020.

Series D Warrants

On May 17, 2019, the Company issued 2,806,981 Series D warrants in connection with the Brokered Concurrent Offering (Note 19). 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 account for as a derivative liability (Note 15).

(Expressed in United States Dollars, except share amounts)

21. Reserve for Warrants (continued)

Series D Warrants (continued)

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 SR share and one Series D Warrant at the Concurrent Offering price of C$7.00 until May 17, 2021.

The Broker Warrants were valued based on the Black-Scholes-Merton option pricing model at the date of measurement with the following assumptions:

	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 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 15).

Lineage Warrants

An aggregate of 12,907,664 warrants (308,662 on a post-Consolidation basis) to purchase Lineage Common Shares ("Lineage Warrants") were outstanding immediately prior to the closing of the RTO Transaction (Note 3), the particulars of which are outlined below:

Date of expiry	**Lineage Warrants**	**Weighted average exercise price (CAD)**	**Weighted average exercise price (USD)**
January 24, 2020	113,348	13.59	10.48
January 24, 2020	9,068	10.45	8.06
February 8, 2020	82,310	13.59	10.48
February 8, 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

(Expressed in United States Dollars, except share amounts)

21. Reserve for Warrants (continued)

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

Date of expiry	Number of warrants outstanding	Exercise price (CAD)	Exercise price (USD)	Weighted average remaining life
May 17, 2021	2,806,981	8.75	6.87	0.38
May 17, 2021	160,775	7.00	5.50	0.38
May 30, 2021	311,544	6.90	5.42	0.41
Total	3,279,300	8.49	6.67	0.38

22. 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 year.

For the 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 the years ended December 31, 2020 and 2019, the number of shares outstanding are retroactively adjusted to reflect the legal capital of the accounting acquiree, including the impact of Lineage's stock dividend and the conversion rate of Lineage's shares into the SVS' at the time of the RTO Transaction. For purposes of calculating loss per share, the dilutive effect of outstanding MVS is converted into 100 SVS on a weighted-average basis for the number of days the MVS' are outstanding.

The following is a reconciliation for the calculation of basic and diluted earnings per share for the years ended December 31, 2020 and 2019:

	2020	2019
Net loss and comprehensive loss	$(11,946,690)	$ (49,458,115)
Dilutive weighted average number of shares outstanding	42,505,013	33,278,046
Basic and diluted earnings per share	$ (0.28)	$ (1.49)

23. 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 years ended December 31, 2020 and 2019 was as follows:

	2020	2019
Short-term employee benefits, including salaries and director fees	$ 2,216,320	$ 2,068,707
Executive bonus	157,500	-
Bonuses related to RTO	-	730,796
Severance payments	829,162	528,116
Share-based compensation - Directors and Executives	813,537	1,505,746
Total	$ 4,016,519	$ 4,833,365

23. Related Party Transactions and Key Management Compensation (continued)

(a) Key Management Compensation (continued)

As at December 31, 2020, $26,250 was owed to Peter Bilodeau, Interim-Chief Executive Officer ("CEO") (December 31, 2019 - $1,055). This amount was due to Emtra Business Services Inc., a company controlled by Mr. Bilodeau through which Mr. Bilodeau is compensated for his services as the Interim CEO of the Company.

As at December 31, 2020, there were no amounts owed to John Nichols, the General Counsel and Chief Compliance Officer of the Company (December 31, 2019 - $3,720).

As at December 31, 2020, there were no amounts owed to Steve DeAngelo, former CEO and a former director of FLRish (December 31, 2019 - $19,375). On December 31, 2020, Mr. DeAngelo separated from the Company. As at December 31, 2020, the Company accrued estimated severance payments of $829,162 as a component of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

As at December 31, 2020, $2,463 (December 31, 2019 - $8,938) was owed to Greg Sutton, the former Chief Operating Officer of Cultivation and Manufacturing of the Company.

As at December 31, 2020, $35,604 (December 31, 2019 - $30,712) was owed to Tom DiGiovanni, the Chief Financial Officer. This amount was due to Newhouse Development LLC, a company controlled by Mr. DiGiovanni through which Mr. DiGiovanni is compensated for his services as the Chief Financial Officer of the Company.

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

On September 1, 2020, an aggregate of 2,235,000 options were granted to directors and officers of the Company with an exercise price of CAD $0.95 per share. 1,625,000 of the options expire on September 1, 2025. The remaining 610,000 expire on November 24, 2021. Of the total granted, one quarter of the options vested immediately upon grant, and the balance vested on November 24, 2020 in connection with certain changes to the Board of Directors.

On December 23, 2020, an aggregate of 840,000 options were granted to the new Board of Directors with an exercise price of $1.83 per share. The options vest in equal annual installments over four years and expire on December 23, 2025, the fifth anniversary of the agreements.

(b) Related Parties

Foundation Group of Companies

FMI and FMICAI, two companies where Mr. Bilodeau and Adam Szweras, a former director 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 C$15,000, which terminated upon completion of the RTO, and a success fee ranging from 2 to 4% of the transaction value for either an M&A transaction or an acquisition. For the year ended December 31, 2019, Harborside paid FMICAI $56,528 (CAD $75,000) in fees related to the FMICAI Consulting Agreement. This amount was recorded as professional fees in the Consolidated Statements of Loss and Comprehensive Loss. There were no payments made to FMICAI during the year ended December 31, 2020.

23. Related Party Transactions and Key Management Compensation (continued)

(b) Related Parties (continued)

On December 3, 2018, FMICAI and FLRish entered into an advisory agreement (the "FMICAI Advisory Agreement") whereby FMICAI would provide consulting services to the Company 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 (CAD $1,000,000) and 143,241 advisory warrants. Each advisory warrant is exercisable into one Underlying Share at an exercise price of $4.15 (CAD $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) during the year ended December 31, 2019 related to the FMICAI Advisory Agreement. This amount was recorded as professional fees in the Consolidated Statements of Loss and Comprehensive Loss. No services were provided by FMI or FMICAI during the year ended December 31, 2020.

On August 28, 2019, FMICAI entered into a new advisory agreement with Harborside (the "M&A Advisory Agreement") for CAD $8,000 a month, which applies retroactively to July 1, 2019. Under the M&A Advisory Agreement, FMICAI charged $36,178 (C$48,000) for advisory services to the Company during the year ended December 31, 2019. These charges were included in professional fees in the Consolidated Statements of Loss and Comprehensive Loss. In addition to these transactions, FMI and FMICAI engaged in other transactions with the Company described in Notes 14, 15 and 19 of these consolidated financial statements.

No balances were owed to FMI or FMICAI as at December 31, 2020 and 2019.

In December 2020, FMICAI, entered into a share purchase agreement with Cachee, the purchaser of Lakeside Minerals Corp., for the purchase of common stock in exchange for an equity interest in Cachee (Note 8).

Quinsam Capital Corporation

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

Nutritional High International Inc. ("Nutritional High")

Adam Szweras, a former 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 year ended December 31, 2020, the Company made purchases at arm's length market rates in the amount of $344,607 (2019 - $655,322) from a subsidiary of Nutritional High. As at December 31, 2020, an amount of $4,449 (December 31, 2019 - $103,687) owing to Nutritional High was included in accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position. Additionally, during the year ended December 31, 2020, Nutritional High (Calyx) made purchases at arm's length market rates in the amount of $276,316 from the Company (2019 - $nil). As at December 31, 2020, an amount of $169,350 (December 31, 2019 - $nil) was owed from Calyx and included in accounts receivable, net in the accompanying Consolidated Statements of Financial Position.

23. Related Party Transactions and Key Management Compensation (continued)

(b) Related Parties (continued)

Flow Cannabis Co.

Kevin Albert, a director of the Company, serves as the director on the board of Flow Cannabis Co. (formally Flow Kana Inc.), a California Company that offers a wide range of California's cannabis CPG brands. During the year ended December 31, 2020, the Company made purchases at arm's length market rates in the amount of $91,993. As at December 31, 2020, an amount of $6,705 owing to Flow Cannabis Co. was included in accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

Entourage Effect Capital

Matthew Hawkins and Andrew Sturner, directors of the Company, are partners of Entourage Effect Capital (formerly known as Cresco Capital Partners) ("Entourage"). Mr. Hawkins is the managing partner of Cresco Capital Partners II LLC ("CCPII"), which subscribed for 288,000 Subscription Receipts for $1,496,880 (C$2,016,000) under the Concurrent Offering in May 2019.

Entourage in an investor in Sublime Canna. During the year ended December 31, 2020, the Company made purchases at arm's length market rates in the amount of $170,236. As at December 31, 2020, an amount of $56,788 owing to Sublime was included in accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position. Additionally, during the year ended December 31, 2020, Sublime made purchases at arm's length market rates in the amount of $643,837 from the Company. As at December 31, 2020, a credit of $39,914 related to an overpayment was included in accounts receivable, net in the accompanying Consolidated Statements of Financial Position.

Edge Financial Consulting Services Group

Peter Kampian, a director of the Company, is the CEO of Edge Financial Consulting Services Group ("Edge Financial"), which provides financial advice to senior management of various public and private cannabis companies. During the year ended December 31, 2020, the Company was charged $7,461 (2019 - $nil) for consulting services provided by Edge Financial related to restatement work on the Fiscal 2018 and 2019 financial statements, prior to Mr. Kampian becoming a director. As at December 31, 2020, no balance was owed to Edge Financial (December 31, 2019 - $nil).

Branson Corporate Services Ltd.

Branson Corporate Services Ltd. ("Branson"), provides finance, accounting and administrative services to the Company. Mr. Bilodeau holds a 18% ownership interest, Mr. Szweras holds a 15% ownership interest and an immediate family member of Mr. Szweras owns a 24% ownership interest in Branson. During the year ended December 31, 2020, the Company was charged $280,213 (2019 - $139,462) for services provided by Branson, which is included in professional fees in the Consolidated Statements of Loss and Comprehensive Loss, and of which $115,296 related to restatement work on the Fiscal 2018 and 2019 financial statements. As at December 31, 2020, an amount of $15,975 (December 31, 2019 - $nil) owing to Branson was included in accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

23. Related Party Transactions and Key Management Compensation (continued)

(b) Related Parties (continued)

Black Oak Ventures

On April 10, 2020, Black Oak Ventures Ltd. ("Black Oak"), an entity where its principal is an immediate family member of the Company's Interim CEO, entered into a consulting agreement to provide certain investor relations services to the Company in exchange for cash compensation. During the year ended December 31, 2020, the Company was charged $95,333 for services provided by Black Oak, which is included in professional fees in the Consolidated Statements of Loss and Comprehensive Loss. As at December 31, 2020, an amount of $12,602 was owed to Black Oak and was included in accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

Amounts due to related parties

As part of the FGW Agreement (Note 3), the Company issued the FGW Note in the amount of $1,265,00 of which $150,000 was allocated to pay all indebtedness outstanding at closing of the FGW Transaction. As at December 31, 2020, $62,702, $13,401, $26,323, $26,323 and $15,251 owing to Equinox B Limited Partners, LLC, Otter Brands, LLC, Matthew T. Henri, Marti Leann Brass and Damien Posey, respectively, was included in due to related parties in the accompanying Consolidated Statements of Financial Position. In addition, there was $6,000 due to an unrelated party that was included as a component of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

Legal Transactions

For the year ended December 31, 2020, Aird & Berlis LLP ("Aird & Berlis"), a law firm of which Sherri Altshuler, a former director of Harborside, is a partner, billed the Company $660,942 (2019 - $803,036) for legal services, an amount which is recorded as professional fees in the Consolidated Statements of Loss and Comprehensive Loss. As at December 31, 2020, an amount of $548,654 (December 31, 2019 - $115,663) owing to Aird & Berlis was included in accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

For the year ended December 31, 2020, Fogler, Rubinoff LLP ("Fogler"), a law firm in which Mr. Szweras is a partner, provided a credit of $6,390 (charged as at December 31, 2019 - $376,672) for legal services previously provided to the Company, which was netted against professional fees in the Consolidated Statements of Loss and Comprehensive Loss. As at December 31, 2020, there were no amounts owed to Fogler (December 31, 2019 - $54,846).

(c) Other Related Parties

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

On June 1, 2020, the Company entered into an additional consulting agreement with Newhouse to provide financial and accounting services related to one of the Company's MSA agreements in exchange for cash compensation. The services are being provided by an immediate family member of the Company's CFO. As at December 31, 2020 a total of $35,604 was owed to Newhouse, of which $7,688 was related to the June 1, 2020 agreement and $27,916 was related to the agreement described in section (a) above.

On September 1, 2020, the Company entered into a promissory note and pledge agreement with Mr. Nichols, in the amount of $100,000. The note bears interest at a rate of 4.0% per annum. Principal and accrued interest are due at maturity on March 31, 2021. The maturity date may be extended by 90 days at the option of the Company. Subsequent to December 31, 2020, the Company extended the maturity date to June 30, 2021 (Note 28).

23. Related Party Transactions and Key Management Compensation (continued)

(c) Other Related Parties (continued)

The note is secured by 400,000 SVS held by Mr. Nichols. As at December 31, 2020, principal and accrued interest amounted to $101,337.

(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 "Production Campus MSA") through Savature, its wholly owned subsidiary.

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. During the year ended December 31, 2020, the Company revised the existing MSAs

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. In fiscal 2019, Harborside recognized contract services revenue of $83,187 for the period prior to January 7, 2019 (when PMACC and SJW were not considered to be under common control with FLRish).

The Production Campus 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 Production Campus 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.

Prior to the merger on January 7, 2019, Harborside had recognized contract services revenue of $275,321.

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. Prior to January 7, 2019, Harborside had recognized contract services revenue of $82,744.

The outstanding accounts receivable balance 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 3).

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 3).

23. Related Party Transactions and Key Management Compensation (continued)

(d) PMACC and SJW (continued)

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 12.0% 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) 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.

From January 7, 2019 to October 8, 2019, the Company advanced an additional $975,266 to SLWS, which was settled as part of the acquisition on October 8, 2019.

24. 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 U.S. Tax Court, determined that a reserve for an uncertain tax position should be recorded. As at December 31, 2020 and 2019, the reserve totaled $37,758,875 and $36,500,000, respectively. Subsequent to year-end the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to SJW, refer to Note 28.

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

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

(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.

24. Commitments and Contingencies (continued)

The claims are in the discovery phase and the Court set a trial date for June 18, 2021. The former employee is claiming $1,125,000 in damages. The Company believes that the facts and causes of action as alleged by the former employee are without merit and that the Company also has meritorious defenses to the causes of action alleged by the former employee.

Separation Agreements

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

On December 31, 2020, the Company eliminated the role of Chairman Emeritus and terminated the employment agreement with Mr. Steve DeAngelo (the "Termination"). Pursuant to the terms of the Termination, Mr. DeAngelo is eligible to receive severance payments in the form of salary and certain related benefits, plus payment by the Company of agreed upon expenses incurred by Mr. DeAngelo prior to Termination. Payments related to the Termination will become due over a period of 24 months from the Termination.

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. On September 30, 2020, the Company and the former employee mediated the matter. With no determination on merits of the action whatsoever, in order to avoid additional cost and the uncertainty of litigation, both parties agreed to resolve any and all claims. Pursuant to the terms of the settlement agreement reached between the parties, the Company agreed to pay the former employee $106,000 to resolve all claims.

SLWS

On August 21, 2020, the Company's subsidiary, SLWS, pursuant to a prior agreement, commenced a demand for arbitration and relief against Agustin J. Lopez, Diana G. Lopez and KSJ Development LLC ("Defendants") with respect to a number of alleged violations of the terms and conditions of the property lease between SLWS and the Defendants. On September 8, 2020, the Defendants filed its response to SLWS's demand for arbitration, and also asserted a number of counterclaims against SLWS. Defendants also interposed an action for unlawful detainer in relation to its counterclaims against the Company. Arbitration of the matter was scheduled for March 29, 2021, with the parties each undertaking pre-arbitral discovery prior to arbitration. On March 30, 2021, the court ruled against SLWS and entered a judgment. On April 1, 2021, the Company filed a request for temporary stay of eviction. The request for a stay was granted and the parties have mutually agreed to stay the eviction until May 15, 2021 while they negotiate a possible extension of the lease (Note 28). The Company intends to appeal the verdict if negotiations are not successful. Arbitration on SLWS' breach claim against the landlord is in the briefing stage with a final determination on the merits of the claims not expected until the third quarter of 2021. The Company continues to negotiate with the landlord on an extension of the current lease while the Company seeks to relocate its retail operations within the City of San Leandro.

24. Commitments and Contingencies (continued)

Gia Calhoun v. FLRish, Inc.

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

1. No class-related discovery is permitted;

2. Within the next 90 days, the Company may take discovery on plaintiff's DNC claim;

3. Within the next 90 days, plaintiff may take discovery on the issue of whether an ATDS was used to call Plaintiff. However, the court expressly ruled that the parties may not engage in any expert discovery on ATDS issue.

On April 1, 2021 the Supreme Court issued its decision in the Facebook case, narrowly interpreting ATDS. The Court held, "Congress' definition of an autodialer requires that in all cases, whether storing or producing numbers to be called, the equipment in question must use a random or sequential number generator." Though not dispositive, the Company believes the ruling is favorable to its defense. The Company presently awaits the court's setting of another Case Management Conference. A trial date remains to be set, and the case remains in discovery phase.

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

On or about January 10, 2020, PMACC was served with a complaint filed by plaintiff and putative class representative Mr. Michael Adams. The complaint, filed on January 7, 2020 in Superior Court of the State of California for Alameda County, alleges violations of California Business and Professions Code §17200 with respect to PMACC's employee wage payment practices, and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Mr. Adams. The Company believes that the complaint fails to state any claim upon which relief can be granted, and that it has meritorious defenses to the alleged causes of action. The Company further believes that Mr. Adams' allegations fail to adequately represent the claims of any alleged class of similarly situated plaintiffs. In late April 2020, the Company filed a demurrer/motion to strike as to plaintiff's complaint; the Court granted the Company's demurrer/motion to strike in part, with leave for the plaintiffs to amend and refile their original complaint. On or about October 6, 2020, plaintiff and the Company agreed to mediation of the case, with mediation scheduled for May 4, 2021.

24. Commitments and Contingencies (continued)

Employment Agreements

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

Shahrohkimanesh v. Harborside, Inc. et al.

In September 2020, the Company became aware of a complaint filed by putative class representative Ms. Rihanna Shahrohkimanesh in the U.S. Federal District Court for the District of Oregon. On October 13, 2020, the Company was formally served with a complaint and related summons. The complaint alleges violations of the U.S. Securities Exchange Act of 1934 (15 USC §§ 78j(b) and 78t(a) and Rule 10b-5 promulgated thereunder (17 CFR § 240.10b-5)) and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Ms. Shahrohkimanesh. Subsequent to December 31, 2020, the Company announced that the compliant was voluntarily dismissed by plaintiff in its entirety without prejudice (Note 28).

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

25. Capital Management

The Company's objectives when managing its capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern, meet capital expenditures required for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt or acquire or dispose of assets. 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:

(1) minimizing discretionary disbursements;

(ii) reducing operating expenditures throughout the Company; and

(iii) exploring alternative 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 years ended December 31, 2020 and 2019.

26. Financial Risk Management

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

(Expressed in United States Dollars, except share amounts)

26. Financial Risk Management (continued)

(a) 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 market is hindered, whether as the 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 December 31, 2020, the Company had a cash and cash equivalents balance of $10,458,545 (December 31, 2019 - $12,164,927) to settle current liabilities of $63,466,254 (December 31, 2019 - $56,376,734). The higher current liabilities as of December 31, 2020 and 2019 is primarily due to the Company's provision for an uncertain tax position (Note 16).

In addition to the commitments outlined in Note 11, *Right-of-use Assets and Lease Liabilities*, and Note 24, *Commitments and Contingencies*, the Company has the following contractual obligations as at December 31, 2020:

	Less than 1 Year	**1 to 3 Years**	**4 to 5 Years**	**> 5 Years**	**Total**
Accounts payable and accrued liabilities	$ 17,198,715	$ -	$ -	$ -	$ 17,198,715
Convertible notes payable	473,908	-	-	-	473,908
Income tax payable	7,382,002	-	-	-	7,382,002
Note payable and accrued interest	908,004	1,861,404	1,997,592	14,971,539	19,738,539
	$ 25,962,629	$ 1,861,404	$ 1,997,592	$ 14,971,539	$ 44,793,164

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecasted and actual cash flows. Where sufficient 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 obligations, after taking into account the cash flow requirements from operations and the Company's cash position at year-end.

(b) Credit Risk

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

26. Financial Risk Management (continued)

(c) Market Risk

(i) 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 note payable and convertible notes are carried at a fixed interest rate throughout their term. The Company considers interest rate risk to be immaterial.

(ii) Foreign Exchange Risk

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

(d) 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.

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

27. Segmented Information

The Company's operations comprise a single operating segment engaged in the cultivation, branding, distribution and retail management of cannabis within the U.S. All revenues were generated in the United States for the years ended December 31, 2020 and 2019 and all property, plant and equipment and intangible assets are located in the United States.

28. Subsequent events

The Company has evaluated subsequent events through April 24, 2021, which is the date these consolidated financial statements were approved by the Board of Directors.

Shahrohkimanesh v. Harborside, Inc. et al.

On January 21, 2021, the Company announced that the complaint filed by Ms. Rihanna Shahrohkimanesh was voluntarily dismissed by plaintiff in its entirety without prejudice.

Hiatt Creek Properties et al. v. AUPA, LLC et al.

In early February 2021, and after informal settlement discussions with plaintiff, the Company was formally served with a lawsuit filed in the Superior Court of California for the County of Mendocino. The lawsuit generally alleges that plaintiff did not receive payment for a number of products and services provided by plaintiff to the defendants. The Company believes that the complaint fails to state any claim upon which relief can be granted, that it has meritorious defenses to the alleged causes of action, and that in any event, the amount alleged to be at issue is non-material to the Company's financial or operational results. The case is presently in its early stages of pre-trial motion practice.

Resolution of San Jose Wellness 280E case

On February 17, 2021, the United States Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to Docket Nos. 12313-15, 12353-15, and 15714-18 (the "Cases") to disallow all of SJW's deductions pursuant to IRC Section 280E for all the years at issue. The Company accrued an additional $523,600 related to the 2015 tax year as at December 31, 2020 based on the deficiencies assessed by the court.

Private Placement of Equity Units

On February 18, 2021, the Company closed its upsized brokered private placement of units at a price of C$2.55 per SVS Unit (as defined below) and C$255 per MVS Unit (as defined below) for aggregate gross proceeds of C$35,103,045 (the "Offering"). Beacon Securities Limited and ATB Capital Markets acted as co-lead agents in connection with the Offering (the "Agents").

Each unit issued to non-residents of the U.S (each, an "SVS Unit") was comprised of one SVS and one SVS purchase warrant (each, an "SVS Warrant"). Each SVS Warrant is exercisable to acquire one SVS of the Company for a period of 36 months following the close of the Offering at an exercise price of C$3.69 per SVS, subject to adjustment and acceleration in certain events. A total of 5,806,700 SVS Units were issued pursuant to the Offering.

All investors that were considered residents of the U.S. were issued units (each, an "MVS Unit") comprised of MVS of the Company and MVS purchase warrants (each, an "MVS Warrant") based on the same economic equivalency of each MVS converting into 100 SVS. The holders of MVS are entitled to one vote in respect of each SVS into which such MVS could be converted. A total of 79,592 MVS Units were issued pursuant to the Offering.

In consideration for their services, the Company paid the Agents a cash commission equal to C$1,451,340.75 and issued the Agents an aggregate of 569,154 Broker Warrants. Each Broker Warrant is exercisable until February 18, 2022 into one SVS Unit (each comprised of one SVS and one SVS Warrant) at an exercise price of C$2.55 per SVS Unit. Upon exercise of a Broker Warrant, each underlying SVS Warrant is exercisable at C$3.69 per SVS Warrant until February 18, 2024.

28. Subsequent events (continued)

As certain insiders and other related parties of the Company, including CCPII, participated in the Offering, it was deemed to be a "related party transaction" as defined under Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions ("MI 61-101"). The Offering was exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 (pursuance to subsections 5.5(a) and 5.7(a)) as the fair market value of the securities distributed to, and the consideration received from, related parties did not exceed 25% of the Company's market capitalization.

Tenant Purchase Option

On February 25, 2021, the Company provided notice to CFP with its intent to exercise its call option to purchase the Production Campus.

Loudpack

On March 8, 2021, the Company, through one of its subsidiaries, purchased $5,000,000 of 15% Senior Secured Convertible Debentures (the "Debentures") of LPF JV, LLC ("Loudpack") maturing on December 31, 2022. The Loudpack Debentures bear interest at the rate of 15% and are secured by first and second priority liens on assets of Loudpack and its subsidiaries, as well as joint and several guarantees provided by direct and indirect subsidiaries of Loudpack and certain of its members. Prior to maturity, the Debentures are subject to both optional and mandatory conversion features as well as an optional redemption feature [and additional restrictions imposed upon Loudpack by the Company pertaining to the ultimate use of the funds used to purchase the Debenture]. The Debentures are also subject to an optional conversion feature at maturity.

Prior to maturity, the Debentures will be automatically converted to equity upon the closing of a qualified fundamental transaction ("Qualified Fundamental Transaction"), which is defined as (a) an initial public offering or reverse takeover transaction that: (i) yields net proceeds of not less than $25 million in cash; (ii) with at least 80% of the net proceeds referenced in item (i) coming from parties that are not (A) insiders, (B) relatives or affiliates of insiders, or (C) in any way affiliated with Loudpack; (iii) is led by agreed upon investment banks; and (iv) is supported by a valuation opinion issued by a nationally recognized, independent investment bank, or (b) a merger or acquisition transaction involving an acquirer with a pre-transaction market capitalization of at least $500 million and whose shares have a 60 day trailing average daily trading value of not less than $6 million, provided that any other merger or acquisition transaction shall be deemed a Qualified Fundamental Transaction upon a favorable vote by the holders of a majority of the principal amount of the Debentures. In the event that the Debentures are automatically converted upon the closing of a Qualified Fundamental Transaction, they will be automatically converted at the lower of: (i) the pre-conversion equity value implied by the Qualified Fundamental Transaction less a discount of 35%, or (ii) a pre-conversion equity cap of $212.5 million prior to November 30, 2021, or $200 million after November 30, 2021.

The Debentures may be converted prior to maturity, at the Company's option, in the event that Loudpack closes a qualified equity financing, in an amount of not less than $25 million, which is not considered to be a Qualified Fundamental Transaction, (a "Qualified Transaction"). If the Company were to exercise its option upon the closing of a Qualified Transaction, the Debentures would be converted at the lower of (i) the equity price of the Qualified Transaction less a discount of 35%, or (ii) a pre-conversion equity cap of $225 million on a post conversion, fully diluted basis. In addition, prior to maturity Loudpack may be required to offer the Company an opportunity to redeem some or all of its Debenture holdings at par plus any accrued and unpaid interest in the event that Loudpack were to sell certain of its real estate assets.

Upon maturity, the Debentures are payable in cash at a price equal to par value plus accrued interest, or at the option of the Company may be converted into equity at a pre-conversion equity value of $225 million.

In conjunction with the investment in the Debentures by the Company, Andrew Sturner, a director of the Company was appointed as a board member by Loudpack.

28. Subsequent events (continued)

Extension to Related Party Note Receivable

On March 12, 2021, the Company extended the maturity date of the promissory note and pledge agreement with Mr. Nichols to June 30, 2021.

Series B Special Shares and C Special Shares

On February 26, 2021, the outstanding Series B Special Shares and C Special Shares were formally redeemed for cancellation at a redemption price of $0.000001 per share in accordance with the Company's articles of amendment dated December 1, 2020. No compensation was paid to any holder pursuant to the articles of the Company, which provide that no payment shall be made and no compensation shall be provided for any payment to a holder that is less than $1.00.

Revolving Credit Facility

On March 19, 2021, the Company entered into a senior secured revolving credit facility (the "Facility") with a commercial federally regulated bank (the "Bank") for $12,000,000.

The Facility is due March 2023, has a variable interest rate based on the prime rate charged by the Bank plus a premium, with a floor rate of 5.75%, and is secured by a first-priority security interest on substantially all of the Company's assets. As consideration for the Facility, the Company has agreed to, among other things: (i) deliver a commercial security agreement, an assignment of deposit account, and a security agreement in respect of cash collateral to the Bank; (ii) make an upfront cash payment based on the principal amount of the Facility to the Bank as an original issue discount; and (iii) issue 4,100 warrants to the Bank to purchase MVS, which subject to certain conditions, are convertible into SVS at a conversion rate of 100 SVS for each MVS converted. Each warrant issued to the Bank will entitle the Bank to one MVS of the Company at a price of C$369, at any time prior to March 19, 2023.

SLWS

On March 30, 2021, in connection with an ongoing dispute related to the property lease for SLWS (Note 11 and Note 24), the court ruled against SLWS and entered a judgment that included:

(i) the plaintiff immediately being entitled to restitution and possession of the premises;

(ii) the lease for SLWS premises being declared forfeited; and

(iii) the plaintiff being awarded unpaid rent and damages.

On April 1, 2021, the Company filed a request for temporary stay of eviction. The request for a stay was granted and the parties have mutually agreed to stay the eviction until May 15, 2021 while they negotiate a possible extension of the lease.

PMACC v. Commissioner

PMACC v. Commissioner is an appeal to the United States Court of Appeals for the Ninth Circuit of an adverse Tax Court decision that was issued on November 29, 2018 (see Note 16). In December 2019, PMACC appealed the Tax Court decision to the United States Court of Appeals for the Ninth Circuit, which heard oral arguments in the case on February 9, 2021 and affirmed the Tax Court decision on April 22, 2021.