HARBORSIDE INC.
Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020
(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 operations 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 auditors, Armanino LLP, and their report is presented herein.

April 27, 2022

Edward M. Schmults ("signed")	*Tom DiGiovanni ("signed")*
Chief Executive Officer	*Chief Financial Officer*

Independent Auditor's Report
To the Board of Directors and Stockholders
Harborside Inc.
Ontario, Canada

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, 2021 and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the year 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("CAS") and the auditing standards generally accepted in the United States of America ("US GAAS"). 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 audit 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 Matter

The consolidated financial statements for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 24, 2021.

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 audit 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 audit 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 these consolidated financial statements in accordance with the applicable financial reporting framework, 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 these consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to a 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 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 CAS and US GAAS 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 CAS and US GAAS, 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.

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 audit.

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 Ryan Teed.

/s/ Armanino LLP
Certified Public Accountants
San Ramon, California, United States of America

April 27, 2022

HARBORSIDE INC.

Consolidated Statements of Financial Position
As At December 31, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

	Note	December 31, 2021	December 31, 2020
ASSETS			
Current Assets			
Cash		$ 8,774,941	$ 10,458,545
Restricted cash	15	316,464	-
Accounts receivable, net	4	4,546,357	1,932,002
Inventories	5	6,414,150	3,785,849
Biological assets	6	443,839	1,321,069
Prepaid expenses	7	4,332,566	1,759,013
Note receivable - related party	27	-	101,337
Note receivable	32	1,065,393	-
Other current assets	8	1,230,655	450,069
Total current assets		27,124,365	19,807,884
Investments and advances	9	2,458,011	250,000
Property, plant and equipment, net	10	23,515,610	17,909,607
Right-of-use assets	12	4,433,397	4,707,834
Deposits and other assets		390,325	20,053
Intangible assets	11	64,692,644	57,907,891
Goodwill	11	31,206,577	14,366,055
TOTAL ASSETS		$ 153,820,929	$ 114,969,324
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	13	$ 23,692,814	$ 17,198,715
Due to related parties		-	144,000
Convertible notes payable - current	17	-	473,908
Derivative liabilities - current	18	-	21,180
Lease payable - current	12	714,181	487,574
Income taxes payable		10,156,438	7,382,002
Provisions	19	36,051,249	37,758,875
Total current liabilities		70,614,682	63,466,254
Note payable and accrued interest	14	-	10,726,421
Revolving credit facility, net	15	11,845,678	-
Derivative liabilities	18	779,643	-
Deferred tax liability	21	17,363,459	16,185,657
Lease payable	12	5,614,703	5,959,407
TOTAL LIABILITIES		106,218,165	96,337,739
Shareholders' Equity			
Share capital	22	150,373,620	97,423,381
Contributed surplus	23	10,553,806	9,305,199
Reserve for warrants	24	2,233,556	1,093,592
Accumulated deficit		(118,415,683)	(92,257,217)
Non-controlling interests		2,857,465	3,066,630
TOTAL SHAREHOLDERS' EQUITY		47,602,764	18,631,585
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 153,820,929	$ 114,969,324

Nature of operations (Note 1)
Commitments and contingencies (Note 28)
Subsequent events (Note 32)

Approved on behalf of the Board of Directors:

Edward M. Schmults ("signed") — Director

Matt Hawkins ("signed") — Director

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

HARBORSIDE INC.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the Years Ended December 31, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

		2021	2020
Retail revenue, net		$ 38,695,332	$ 42,015,941
Wholesale revenue, net		12,865,152	21,400,832
Manufacturing revenue, net		11,064,880	-
Gross revenue		62,625,364	63,416,773
Cultivation taxes		(2,324,429)	(3,463,056)
Net revenue		60,300,935	59,953,717
Cost of goods sold - retail		16,667,883	20,463,538
Cost of goods sold - wholesale		10,346,251	11,447,628
Cost of goods sold - manufacturing		7,195,066	-
Total cost of goods sold		34,209,200	31,911,166
Gross profit before biological asset adjustments		26,091,735	28,042,551
Changes in fair value less costs to sell of biological asset transformation	6	(3,845,228)	4,174,784
Realized fair value amounts included in inventory sold		95,417	(2,623,127)
Gross profit		22,341,924	29,594,208
Operating expenses			
General and administrative	20	23,464,127	18,163,657
Professional fees		6,935,770	8,937,463
M&A and transactional expenses		5,607,925	-
Share-based compensation	23	787,743	1,058,671
Allowance for expected credit losses		489,467	230,597
Write-downs (recovery) of receivables and investments and advances	9	(116,000)	706,363
Depreciation and amortization	10, 11 & 12	2,164,207	996,729
Total operating expenses		39,333,239	30,093,480
Impairment loss	9, 10 & 12	25,233,195	3,200,339
Operating income (loss)		(42,224,510)	(3,699,611)
Interest income (expense), net		(3,224,558)	(4,707,664)
Other income		152,141	552,038
Provisions	19	5,295,602	912,003
Fair value gain in other current assets, derivative liabilities and preferred shares	8, 9 & 18	11,582,676	67,389
Gain on debt extinguishment	14	128,417	-
Foreign exchange gain		144,493	1,044,287
Total other income (expense)		14,078,771	(2,131,947)
Net income (loss) before income taxes		(28,145,739)	(5,831,558)
Income tax (benefit) expense	21	1,778,108	(6,115,132)
Net income (loss)		(26,367,631)	(11,946,690)
Less income (loss) attributable to non-controlling interests		(209,165)	-
Net income (loss) attributable to Harborside Inc.		$ (26,158,466)	$ (11,946,690)

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

HARBORSIDE INC.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the Years Ended December 31, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

		2021	2020
Weighted average number of shares outstanding			
Basic and diluted	26	68,158,181	42,505,013
Net loss per share			
Basic and diluted	26	$ (0.38)	$ (0.28)
Comprehensive income (loss):			
Net income (loss)		(26,367,631)	(11,946,690)
Comprehensive income (loss) attributable to non-controlling interests		(209,165)	-
Comprehensive income (loss) attributable to Harborside Inc. shareholders		$ (26,158,466)	$ (11,946,690)

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, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

	Note	Share capital	Contributed surplus	Reserve for warrants	Accumulated Deficit	Subtotal	Non-controlling interests	Equity incl. non-controlling interests
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	23	42,433	-	-	-	42,433	-	42,433
Share-based compensation	23	-	1,058,671	-	-	1,058,671	-	1,058,671
Issuance of restricted share awards	22	1,815,600	(1,815,600)	-	-	-	-	-
Expiry of warrants issued on reverse takeover	23	-	94,185	(94,185)	-	-	-	-
Ownership interest in FGW Haight Inc.	23	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**
Balance, January 1, 2021		**$ 97,423,381**	**$ 9,305,199**	**$ 1,093,592**	**$ (92,257,217)**	**$ 15,564,955**	**$ 3,066,630**	**$ 18,631,585**
Exercise of stock options	23	200,291	-	-	-	200,291	-	200,291
Share-based compensation	23	-	787,743	-	-	787,743	-	787,743
Issuance of SVS and MVS units in private offering	22	13,115,086	-	-	-	13,115,086	-	13,115,086
Private offering issuance costs	22	(1,194,390)	-	-	-	(1,194,390)	-	(1,194,390)
Issuance of warrants to the Bank	15	-	-	466,716	-	466,716		466,716
Issuance of broker warrants	24	-	-	1,134,112	-	1,134,112	-	1,134,112
Issuance of shares in acquisitions	3 & 22	40,829,252	-	-	-	40,829,252	-	40,829,252
Expiry of broker warrants	24	-	460,864	(460,864)	-	-	-	-
Net loss for the year	25	-	-	-	(26,158,466)	(26,158,466)	(209,165)	(26,367,631)
Balance, December 31, 2021		**$ 150,373,620**	**$ 10,553,806**	**$ 2,233,556**	**$ (118,415,683)**	**$ 44,745,299**	**$ 2,857,465**	**$ 47,602,764**

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, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

	Note	2021	2020
Operating Activities			
Net loss for the year		$ (26,367,631)	$ (11,946,690)
Adjustments to reconcile net loss to cash flow:			
Share-based compensation	23	787,743	1,058,671
Depreciation and amortization	10, 11 & 12	4,229,222	3,020,549
Changes in fair value less costs to sell of biological asset transformation	6	3,845,228	(4,174,784)
Fair value gain in other current assets, derivative liabilities and preferred shares	18	(11,582,676)	(67,389)
Gain on extinguishment of debt	14	(128,417)	-
Provision for expected credit losses	4	489,467	230,597
Interest income on notes receivable - related party, note receivable and investments and advances	9 & 27	(679,060)	(68,899)
Gain on sale of Lakeside Minerals Corp.		-	(78,540)
Lease modification		(11,291)	-
Professional fees classified as financing activities - private placement of equity units		607,245	-
Amortization of other current assets and debt issuance costs		288,156	-
Accrued interest on lease liabilities	12	877,906	1,166,419
Loss on disposal of property, plant and equipment		65,010	30,269
Write-down (recovery) of receivables and investments and advances	9	-	706,363
Impairment loss	11	25,233,195	1,984,992
Foreign exchange gain		(144,493)	(1,044,287)
		(2,490,396)	(9,182,729)
Changes in non-cash working capital:			
Accounts receivable, net	4	(125,260)	(709,436)
Inventories	5	847,797	(1,402,149)
Biological assets	6	(2,967,998)	4,020,840
Prepaid expenses	7	(1,779,168)	(923,125)
Deposits and other assets		(51,598)	3,402
Accounts payable and accrued liabilities	13	(463,642)	1,529,409
Due to related parties		(144,000)	-
Income tax payable	21	2,774,436	3,760,496
Provisions	19	(1,707,626)	1,258,875
Accrued interest on note payable	14	(1,491,912)	556,079
Deferred tax liability	21	(7,684,678)	534,459
Cash Flows (used in) Operating Activities		(15,284,045)	(553,879)
Financing Activities			
Net proceeds raised in private offering	22	26,990,719	-
Net proceeds from draw down on revolving credit facility	15	11,751,982	-
Repayment of notes payable	3 & 14	(9,210,000)	-
Repayments of convertible note	17	(500,000)	(150,000)
Payments of principal portion of lease liabilities	12	(1,525,879)	(1,191,665)
Proceeds from exercise of stock options	23	200,291	42,433
Cash Flows provided by (used in) Financing Activities		27,707,113	(1,299,232)
Investing Activities			
Investment in debentures	9	(5,000,000)	-
Repayment (advances) to related party	27	102,674	(100,000)
Advances on note receivable	9	(1,000,000)	-
Settlement of pre-existing relationship	3	(928,623)	-
Cash paid to acquire Sublime, net of cash received	3	(374,061)	-
Cash paid to acquire Accucanna LLC, net of cash received	3	(3,407,679)	-
Purchases of property, plant and equipment	10	(3,309,251)	(754,728)
Cash Flows (used in) Investing Activities		(13,916,940)	(854,728)

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, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

	Note		2021	2020
Decrease in cash and restricted cash			(1,493,872)	(2,707,839)
Effects of foreign exchange on cash and restricted cash			126,732	1,001,457
Cash and restricted cash, beginning of year			10,458,545	12,164,927
Cash and restricted cash, end of year		$	9,091,405	$ 10,458,545
Cash and restricted cash consisted of the following:				
Cash			8,774,941	10,458,545
Restricted cash - interest reserves	15		316,464	-
		$	9,091,405	$ 10,458,545
Supplementary Information				
Cash paid during the year for:				
Interest		$	807,099	$ 955,602
Income taxes			2,283,053	1,986,650
Non-Cash Investing and Financing Activities				
Issuance of warrants to Bank	15 & 24	$	466,716	$ -
Issuance of Broker warrants	22 & 24		1,134,112	-
Investment in Accucanna LLC	9		-	270,327
Conversion of 10% call option in Accucanna LLC	3		366,000	-
Issuance of restricted share awards	23		-	1,815,600
Expiry of warrants issued on reverse takeover	24		-	94,185
Expiry of Broker warrants	24		460,864	-
Loss on sale of business	9		-	1,215,347

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

1. Nature of Operations

Harborside Inc. ("Harborside" or the "Company"), through its affiliated entities, 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, and is focused on building and maintaining its position as one of California's premier vertically integrated cannabis companies.

As at December 31, 2021, the Company owned and operated four retail dispensaries in California, one retail dispensary in Oregon (the "Terpene Station Dispensary"), a cultivation/production facility in Salinas, California (the "Production Campus"), a manufacturing facility in Oakland, California and distribution centers in San Jose and Los Angeles, California. The Company has a 21% ownership interest in FGW Haight Inc. ("FGW"), a company with the conditional use approval necessary to operate a cannabis dispensary and related businesses in the Haight Ashbury area of San Francisco, California, and is in process of constructing a retail dispensary which is adjacent to Golden Gate Park.

On July 2, 2021, the Company acquired 100% of the issued and outstanding shares of Sublimation Inc. ("Sublime"), a cannabis manufacturing and distribution company located in Oakland, California (Note 3).

On September 2, 2021, the Company acquired 100% of the equity interest of Accucanna LLC ("Accucanna"), a company which is licensed to operate a retail dispensary in Desert Hot Springs, California. Prior to acquiring Accucanna, the Company operated the Accucanna retail dispensary under a management services agreement (Note 3).

On March 1, 2022, the Company acquired 100% of the equity interests of UL Holdings Inc. ("Urbn Leaf"), a leading California cannabis retailer with a dominant position in southern California (Note 32).

On April 4, 2022, the Company acquired 100% of the equity interests of LPF JV Corporation ("Loudpack"), a leading manufacturer, cultivator, and distributor of award-winning cannabis brands in California (Note 32).

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 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9, Canada, and the Company's head office is located at 1295 W Morena Blvd., San Diego, California 92110, United States.

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 27, 2022.

2.2 Functional Currency

The functional currency of the Company and each of its subsidiaries 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.

(Expressed in United States Dollars, except share amounts)

2. Summary of Significant Accounting Policies (continued)

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 (%) 2021	Percentage Owned (%) 2020
Harborside Inc.	Ontario, Canada	Parent	100	100
Accucanna LLC	California, U.S.	Operating Company	100	-
Accucanna RE, LLC	California, U.S.	Operating Company	100	-
Encinal Productions RE, LLC	California, U.S.	Operating Company	100	-
FGW Haight Inc.	California, U.S.	Operating Company	21	21
FLRish Farms Cultivation 2, LLC	California, U.S.	Operating 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
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
Savature Inc.	California, U.S.	Operating Company	100	100
Sublime Machining Inc.	California, U.S.	Operating Company	100	-
FLRish Farms Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish, Inc.	California, U.S.	Management Company	100	100
FLRish Retail Management & Security Services, LLC	California, U.S.	Management Company	100	100
Accucanna Holdings Inc.	California, U.S.	Holding Company	100	-
FFC1, LLC	California, U.S.	Holding Company	100	100
FLRish Farms Cultivation 7, LLC	California, U.S.	Holding Company	-	100
FLRish Flagship Enterprises, Inc.	California, U.S.	Holding Company	-	100
FLRish IP, LLC	California, U.S.	Holding Company	100	100
FLRish Retail Affiliates, LLC	California, U.S.	Holding Company	-	100
FLRish Retail JV, LLC	California, U.S.	Holding Company	-	100
FLRish Retail, LLC	California, U.S.	Holding Company	100	100
Haight Acquisition Corporation	Delaware, U.S.	Holding Company	100	100
LGC Holdings USA, Inc.	Nevada, U.S.	Holding Company	100	100
LGC Real Estate (Colorado), LLC	Nevada, U.S.	Holding Company	-	100
LGC Real Estate Holdings, LLC	Nevada, U.S.	Holding Company	-	100
LGC Operations, LLC	Nevada, U.S.	Holding Company	-	100
Lineage GCL California, LLC	California, U.S.	Holding Company	100	100
Lineage GCL Oregon Corporation	Oregon, U.S.	Holding Company	100	100
Oakland Machining Supply SLB LLC	California, U.S.	Holding Company	100	-
SaVaCa, LLC	California, U.S.	Holding Company	100	100
Sublimation Inc.	Delaware, U.S.	Holding Company	100	-
Unite Capital Corp.	Ontario, Canada	Holding Company	100	100

2. Summary of Significant Accounting Policies (continued)

2.3 Basis of Consolidation (continued)

The consolidated financial statements as at December 31, 2021 and 2020 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in IFRS 10, *Consolidated Financial Statements* ("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

The global pandemic outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. In response to the outbreak, governmental authorities in the United States, Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place and social distancing. 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 in place to limit social interactions and enforce social distancing measures in accordance with applicable regulations. 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. COVID-19 has cast uncertainty on the assumptions used by management in making its judgments and estimates. 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.

2.5 Cash

Cash and restricted cash is comprised of funds held in banks, funds held in short term (less than one year) Certificates of Deposits with the Bank (with 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, 2021 and 2020.

2.6 Inventories

Inventories are measured at the lower of cost or 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 using the weighted average cost 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. Summary of Significant Accounting Policies (continued)

2.6 Inventories (continued)

With respect to the Company's acquired operations for white label manufacturing and wholesale distribution lines of business, the Company has certain raw materials and finished goods which are on consignment. Certain white label manufacturing customers provide packaging, labels, and other raw materials at no cost to the Company to be incorporated into the white label manufactured products. For distribution arrangements, the Company maintains a consignment inventory of products. The distribution arrangements are deemed to be consignment arrangements because the supplier controls the products until the Company takes title immediately before delivery to the end customer. The supplier can require return or transfer of the products and the Company does not have an unconditional obligation to pay for the products. The Company's obligation to pay for the products occur when they are sold to the dispensaries.

2.7 Biological Assets

The Company's biological assets consist of cannabis plants in various stages of growth prior to harvest. 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 Income (Loss) and Comprehensive Income (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 items are 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.

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.

2. Summary of Significant Accounting Policies (continued)

2.8 Investments in and Advances to Unconsolidated Associates (continued)

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.

2.10 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 the following estimated useful lives:

Trademark	4 - 15 years
Developed technology	5 years
Customer relationships	5.5 years

The Company's licenses are 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.

2. Summary of Significant Accounting Policies (continued)

2.10 Intangible Assets (continued)

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, 2021 and 2020, the Company recorded an impairment loss of $24,698,151 and $3,200,339, 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.

For the year ended December 31, 2021, the Company recorded an impairment loss on goodwill of $535,044. There was no goodwill impairment for the year ended December 31, 2020.

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.

2.14 Leases

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

2. Summary of Significant Accounting Policies (continued)

2.14 Leases (continued)

If a contract is determined to be a lease, a 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. A corresponding 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.

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.

The Company has elected to recognize expenses for leases with a term of 12 months or less and leases of low-value assets as expenses when incurred. Leases have varying terms with remaining lease terms of up to approximately 15 years.

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 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) which has arisen as the 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 which 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 and 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 §280E, under which the Company is only allowed to deduct expenses which are directly related to the costs of production. This results in permanent income tax differences caused by ordinary and necessary business expenses which are deemed unallowable deductions under IRC §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 each 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 §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 §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, 2021, the Company has evaluated the uncertain tax treatments relating to the application of IRC §280E on the 2020 and 2019 income tax returns and recorded an uncertain tax position of $1,804,864 and $1,960,837, respectively. In addition, the Company has separately recorded a provision for uncertain tax positions associated with the PMACC/SJW acquisition (Note 19).

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 Income (Loss) and Comprehensive Income (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.

2. Summary of Significant Accounting Policies (continued)

2.18 Revenue Recognition (continued)

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

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

The Company 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 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.

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.

Manufacturing Revenue

The Company's manufacturing revenue from certain acquired operations includes wholesale product sales to dispensary customers and other distributors, white label manufactured products for other third party businesses who typically put their own branding on the product, and revenue from the distribution of products for other cannabis companies.

The Company recognizes revenue on a gross basis from the distribution of products because the Company has determined that it is the principal in the transaction. The Company is primarily responsible for fulfilling the promise to transfer the goods, including the responsibility to test the goods in accordance with state requirements. Only products that have passed the testing requirements can be sold. Further, the Company takes title of the goods immediately before shipment of the products to the customers. The Company is in control of customer expectations and is responsible for addressing any customer issues with products. The Company also has discretion in establishing the prices of products distributed.

2. Summary of Significant Accounting Policies (continued)

2.18 Revenue Recognition (continued)

Loyalty Rewards Program

The Company had a loyalty rewards program that allowed participating retail customers to earn reward points to be used on future purchases of goods at a price that reflected a significant discount from the stand-alone selling price of a product. This program provided participating retail customers with a material right which was accounted for as a separate performance obligation. Management calculated 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 allocated a portion of the gross sales revenue to the material right. As the points were redeemed, a proportionate amount of material right was recognized as revenue and at year-end the amount of the material right represented by the unredeemed points was carried forward as a liability.

As at December 31, 2020, the Company had a loyalty program liability of $685,642, which was recorded as a component of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position. The Company terminated the loyalty rewards program during the year ended December 31, 2021.

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.

On March 31, 2022, the Company enacted the Mandatory Conversion of all the MVS into SVS at a ratio of 100 SVS for each MVS outstanding (Note 32).

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.

2. Summary of Significant Accounting Policies (continued)

2.20 Share-Based Payments (continued)

Stock options (continued)

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 Share 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.

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 the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. At December 31, 2021 and 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. Summary of Significant Accounting Policies (continued)

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 considers 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.

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, 2021 and 2020.

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 Income (Loss) and Comprehensive Income (Loss) in the period in which the gains 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.

2. Summary of Significant Accounting Policies (continued)

2.25 Financial Instruments (continued)

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, 2021 and 2020, 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 income (loss). Directly attributable transaction costs are recorded in net income (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, which 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 FVTPL 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.

The following table presents the Company's classification of financial assets and financial liabilities as at December 31, 2021:

Financial assets/ financial liability	Classification
Cash and restricted cash	Amortized cost
Accounts receivable, net	Amortized cost
Other current assets	FVTPL
Investments and advances	FVTPL
Deposits and other assets	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Note payable and accrued interest	Amortized cost
Revolving credit facility, net	Amortized cost
Convertible notes payable	Amortized cost
Derivative liabilities	FVTPL

2. Summary of Significant Accounting Policies (continued)

2.25 Financial Instruments (continued)

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 in full, or when the financial asset is more than 90 days past due.

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

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.

2.26 Critical Accounting Estimates and Judgments

The preparation of these 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 their respective fair values at the acquisition date. 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.

2. Summary of Significant Accounting Policies (continued)

2.26 Critical Accounting Estimates and Judgments (continued)

Business combination (continued)

The Company examines three elements to determine whether control exists. When 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 at their fair values due to the acquisition.

Fair value of biological assets and inventories

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

2.26 Critical Accounting Estimates and Judgments (continued)

Fair value of biological assets and inventories (continued)

The valuation of work in process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for 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 receivable 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 and amortization 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 considers 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 which considers factors such as general and industry-specific economic and market conditions.

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.

2. Summary of Significant Accounting Policies (continued)

2.26 Critical Accounting Estimates and Judgments (continued)

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 to value warrants. Such judgments and assumptions are inherently uncertain and changes in these assumptions will affect the fair value estimates.

Compound financial instruments

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

2. Summary of Significant Accounting Policies (continued)

2.26 Critical Accounting Estimates and Judgments (continued)

Income taxes (continued)

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, 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 the 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, 2021 and 2020 relates to uncertain tax positions under Internal Revenue Code ("IRC") §280E for Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness Solutions Corp. ("SJW"). Many of the central issues relating to the interpretations of §280E remain unsettled, and there are critical accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under §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 findings of the U.S. Tax Court, it has determined that a reserve for uncertain tax position should be recorded for all years subject to statutory review (Note 19). The amount recognized as a provision reflects management's best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation.

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, 2021. Management believes there is sufficient capital to meet the Company's business obligations for at least the next twelve months, after considering expected cash flows and the Company's cash position at period-end.

2. Summary of Significant Accounting Policies (continued)

2.26 Critical Accounting Estimates and Judgments (continued)

Going concern (continued)

As indicated in Note 19, the Company has recognized a provision for particular uncertain tax positions which are related to PMACC and SJW. 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 consolidated financial statements were authorized to be issued. No payments related to any of the provision amounts are expected to be paid until 2023 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 to 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 the Consolidated 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 New, Amended, and Future IFRS Pronouncements

The Company has implemented all applicable IFRS standards recently issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

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 standards issued but not yet effective:

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, 2023 (extended from January 1, 2022), with earlier application permitted.

2. Summary of Significant Accounting Policies (continued)

2.27 New, Amended, and Future IFRS Pronouncements (continued)

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments (Amendments)

In February 2021, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgments*. The amendments help entities provide accounting policy disclosures that are more useful to primary users of financial statements by:

- Replacing the requirement to disclose "significant" accounting policies under IAS 1 with a requirement to disclose "material" accounting policies. Under this, an accounting policy would be material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements.
- Providing guidance in IFRS Practice Statement 2 to explain and demonstrate the application of the four-step materiality process to accounting policy disclosures.

The amendments shall be applied prospectively. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment)

In February 2021, the IASB issued amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments introduce a new definition of 'accounting estimates' to replace the definition of 'change in accounting estimates' and also include clarifications intended to help entities distinguish changes in accounting policies from changes in accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

IAS 12 Income Taxes (Amendment)

In May 2021, the IASB issued amendments to the recognition exemptions under IAS 12 *Income Taxes*. The amendments narrowed the scope of the recognition exemption to require an entity to recognize deferred tax on initial recognition of particular transactions, to the extent that transaction gives rise to equal amounts of deferred tax assets and liabilities. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted.

IAS 41 Agriculture

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendments to IAS 41. The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flow when measuring fair value of a biological assets using a present value technique. This will ensure consistency with the requirements in IFRS 13. The amendment is effective for annual periods beginning on or after January 1, 2022.

(Expressed in United States Dollars, except share amounts)

3. Business Combinations

Acquisitions during the year ended December 31, 2021

The Company completed two business combinations during the year ended December 31, 2021. The Sublime Acquisition (as defined below) and the Accucanna Acquisition (as defined below) were accounted for in accordance with IFRS 3, *Business Combinations* ("IFRS 3").

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

	Sublime Acquisition	Accucanna Acquisition
Acquisition date	July 2, 2021	September 2, 2021
Fair value of consideration paid:		
Cash	$ 2,000,000	$ 3,386,039
Fair value of:		
Debt settled with cash	3,449,692	-
Share capital issued	39,287,742	1,533,617
Conversion of 10% call option (Note 9)	-	366,000
Receivables and payables assumed	(68,497)	997,120
Total purchase consideration	$ 44,668,937	$ 6,282,776

	Sublime Acquisition	Accucanna Acquisition
Purchase consideration paid	$ 44,668,937	$ 6,282,776
Fair value of net assets acquired:		
Cash	5,075,631	(29,533)
Accounts receivable, net	2,973,097	-
Inventory	3,165,822	310,276
Prepaid expenses	653,403	69,080
Deposits and other assets	34,230	-
Right-of-use asset (Note 12)	270,810	-
Property, plant and equipment (Note 10)	1,315,000	3,531,519
Intangible assets (Note 11)	29,700,000	2,900,000
Deferred tax asset (Note 21)	88,000	-
Accounts payable and accrued liabilities	(6,469,756)	(501,909)
Notes payable	(130,000)	-
Lease liability	(429,042)	-
Deferred tax liability (Note 21)	(8,950,481)	-
Total identifiable net assets acquired	27,296,714	6,279,433
Goodwill (Note 11)	17,372,223	3,343
Net Assets Acquired	$ 44,668,937	$ 6,282,776

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods, not to exceed one year from the acquisition date.

HARBORSIDE INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

3. Business Combinations (continued)

Acquisitions during the year ended December 31, 2021 (continued)

Goodwill arising from acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the businesses. These synergies include eliminations of redundant facilities and functions and the use of the Company's existing infrastructure to expand operations and sales. None of the goodwill recognized is expected to be deductible for tax purposes.

The Sublime Acquisition

Sublime is a licensed manufacturer and distributor of adult-use cannabis products. Sublime is known for its "Fuzzies" brand of infused pre-rolls, as well as other cannabis products, including edibles and vapes, which are sold to licensed retailers and distributors throughout the state of California.

On July 2, 2021, the Company acquired 100% of the issued and outstanding shares of Sublime, for total purchase consideration of approximately $44,700,000 (the "Sublime Acquisition"). The purchase price for the Sublime Acquisition was comprised of (a) approximately $38,400,000 payable in Multiple Voting Shares ("MVS"), representing 207,579.66 MVS (based on the volume-weighted average price of the SVS for the 30-days immediately preceding the date of the definitive agreement to purchase Sublime), (b) approximately $5,400,000 in cash and settlement of debt, and (c) approximately $930,000 attributable to a working capital surplus, reduced by approximately $70,000 for the settlement of receivables and payables from the pre-existing relationship.

In connection with the Sublime Acquisition, the Company granted options to purchase an aggregate of 536,875 SVS to certain employees of Sublime, who are now employees of the Company, with each such option exercisable into one SVS at an exercise price of C$1.78, for a period of five years from the date of grant, all in accordance with the terms of the Plan (as defined in Note 23). In addition, the Company assumed the outstanding options of Sublime at closing of the Sublime Acquisition, with such number of underlying SVS to be issuable upon exercise of such options to be reasonably determined by the Board in accordance with the provisions of the definitive agreement relating to the Sublime Acquisition.

Acquisition-related costs of approximately $1,014,000 were included as a component of professional fees in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The estimated fair value of intangible assets acquired as a result of the Sublime Acquisition includes $13,400,000 for two cannabis licenses for manufacturing and distribution, $6,800,000 for a trademark, $3,200,000 for developed technology and $6,300,000 for customer relationships (Note 11). The key assumptions used in estimating fair value of the intangible assets relate to management's five-year business projections, estimated long-term growth, and an after-tax discount rate applicable to the intangible assets estimated at approximately 18%. The discount rate incorporates the risk-free rate as well as risks and uncertainties associated with the projected operations.

The Accucanna Acquisition

Accucanna owns a retail dispensary in Desert Hot Springs, California. In April 2018, the Company entered into a management service agreement with Accucanna to provide services related to the dispensary. In May 2018, the Company entered into a stock purchase agreement (the "Stock Purchase Agreement") that gave the Company the right to purchase 10% of the equity of Accucanna (the "equity call option"), which was originally valued at $500,000.

Under the Stock Purchase Agreement, the equity call option provided that shares of Accucanna stock were to be issued at the Company's option, at any time after the Company delivered to Accucanna 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. Prior to September 2, 2021, the Company had not exercised its equity call option.

3. Business Combinations (continued)

Acquisitions during the year ended December 31, 2021 (continued)

The Accucanna Acquisition (continued)

On September 2, 2021, the Company acquired 100% of the issued and outstanding shares of Accucanna and the property related to the Desert Hot Springs retail dispensary for total purchase consideration of approximately $6,300,000, including the exercise of its equity call option under the Stock Purchase Agreement (the "Accucanna Acquisition"). The purchase price for the Accucanna Acquisition was comprised of (a) approximately $1,500,000 payable in MVS, representing 15,793.40 MVS (based on the volume-weighted average price of the SVS at the time of closing), approximately $784,000 in cash for the equity interest of Accucanna, (b) approximately $2,600,000 in cash for the property related to the Desert Hot Springs dispensary, and (c) approximately $366,000 for the conversion of the call option and approximately $1,000,000 for the settlement of receivables and payables from the pre-existing relationship.

The estimated fair value of intangible assets acquired as a result of the Accucanna Acquisition includes $2,900,000 for a cannabis dispensary license (Note 11). The key assumptions used in estimating fair value of intangible assets 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 12.2%. The discount rate incorporates the risk-free rate as well as risks and uncertainties associated with the projected operations.

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 conversion of the convertible note issued to the Company on closing of the FGW Transaction (the "FGW Note"), valued at $1,265,000. Under the FGW Agreement, if the Specified Approval had not been obtained by June 30, 2021, or notification had been provided that the Specified Approval would not be granted, the principal amount of the FGW Note plus all accrued and unpaid interest would become immediately due and payable by FGW upon notification of the Company that it wished to convert the FGW Note. At such time, all shareholders of FGW, excluding the Company, would be 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 would repay the Company in full the principal amount of the FGW Note with the Additional Shares plus all accrued and unpaid interest in cash. Specified Approval was not obtained by June 30, 2021 and as at December 31, 2021, the Company had not yet converted the FGW Note.

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 during 2022, in conjunction with the opening of the retail location. On February 15, 2022, the Company entered into a definitive securities purchase agreement (the "Subsequent FGW 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%, subject to obtaining the Specified Approval and converting the FGW Note. The aggregate purchase price for the Subsequent Shares will be $1,300,650. Pursuant to the terms of the Subsequent FGW Agreement, the purchase price for the Subsequent Shares 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, multiplied by 100; (ii) C$150 per MVS; or (iii) such other price as may be approved by the CSE. Prior to the closing of the acquisition of the Subsequent Shares, the Subsequent FGW Agreement will be amended to reflect the occurrence of the Mandatory Conversion and the Consolidation (as such terms are defined below), as applicable, and in particular the issuance of SVS instead of MVS as consideration for the Subsequent Shares (Note 32).

(Expressed in United States Dollars, except share amounts)

3. Business Combinations (continued)

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

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.

The following table presents the summarized financial information for FGW before intercompany eliminations as at December 31, 2021:

		2021
Current assets	$	28,556
Non-current assets	$	2,042,270
Current liabilities	$	205,949
Non-current liabilities	$	2,129,643

(Expressed in United States Dollars, except share amounts)

4. Accounts receivable, net

The Company's accounts receivable, net is comprised of the following as at December 31, 2021 and 2020:

	2021	2020
Trade receivables	$ 5,110,877	$ 1,599,624
Sales tax receivables	53,301	575,099
Total	5,164,178	2,174,723
Provision for credit loss	(617,821)	(242,721)
Total accounts receivable, net	$ 4,546,357	$ 1,932,002

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, white label and distribution customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for 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, 2021 and 2020, there were $156,226 and $309,075, 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 in the trade receivables accounts.

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

	2021	2020
Balance, beginning of year	$ 242,721	$ 37,672
Acquired provision for expected credit losses through acquisition	277,224	-
Current year additions to provision for expected credit losses	499,157	208,601
Amounts reversed	(401,281)	(3,552)
Balance, end of year	$ 617,821	$ 242,721

The Company's aging of accounts receivable was as follows as at December 31, 2021 and 2020:

	2021	2020
Current	$ 2,132,748	$ 874,628
1 - 30 days	1,033,575	162,980
31 - 60 days	812,801	230,202
61 - 90 days	396,747	163,988
Over 90 days	788,307	742,925
Total	$ 5,164,178	$ 2,174,723

(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, 2021 and 2020:

	2021	2020
Raw materials	$ 1,633,803	$ 643,839
Work-in-process	1,075,499	931,910
Finished goods	3,704,848	2,210,100
Total	$ 6,414,150	$ 3,785,849

During the years ended December 31, 2021 and 2020, inventory expensed to cost of goods sold was $26,946,146 and $31,626,116, 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, 2021, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of $631,234, 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:

	2021	2020
Balance, beginning of year	$ 1,321,069	$ 1,167,125
Costs capitalized	9,671,956	9,702,306
Changes in fair value less costs to sell due to biological asset transformation	(3,845,228)	4,174,784
Transferred to inventory upon harvest	(6,703,958)	(13,723,146)
Balance, end of year	$ 443,839	$ 1,321,069

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.

(Expressed in United States Dollars, except share amounts)

6. Biological Assets (continued)

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. The following inputs and assumptions are all categorized within Level 3 on the fair value hierarchy and were used in determining the fair value of biological assets:

Inputs and assumptions	Description	Correlation between inputs and fair value
Average selling price per gram	Represents the average selling price per gram of dried cannabis net of excise taxes, where applicable, for the period for all strains of cannabis sold, which is expected to approximate future selling prices.	If the average selling price per gram was higher (lower), estimated fair value would increase (decrease).
Average attrition rate	Represents the weighted average number of plants culled at each stage of production.	If the average attrition rate was lower (higher) estimated fair value would increase (decrease).
Weighted average yield per plant	Represents the weighted average number of grams of dried cannabis inventory expected to be harvested from each cannabis plant.	If the weighted average yield per plant was higher (lower), estimated fair value would increase (decrease).
Standard cost per gram to complete production	Based on actual production costs incurred divided by grams produced in the period.	If the standard cost per gram to complete production was lower (higher), estimated fair value would increase (decrease).
Weighted average effective yield	Represents the estimated percentage of harvested product that meets specifications in order to be sold as a dried cannabis product.	If the weighted average effective yield was higher (lower), the estimated fair value would increase (decrease).
Stage of completion in production process	Calculated by taking the weighted average number of days in production over a total average grow cycle of approximately thirteen weeks.	If the number of days in production was higher (lower), estimated fair value would increase (decrease).

Biological assets as at December 31, 2021 and 2020 include an allocation of depreciation of $270,484 and $173,776, respectively.

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, 2021		As at December 31, 2020	
	Assumptions:	Input	10% change	Input	10% change
i	Weighted average of expected loss of plants until harvest [a]	3%	$ 1,529	14%	$ 20,918
ii	Expected yields (dry grams of cannabis per plant) [b]	52 grams	$ 44,454	56 grams	$ 132,308
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	58%	$ 44,454	55%	$ 132,308
iv	Estimated selling price (per gram) [c]	$1.25 per gram dried flower $0.14 per gram dried trim	$ 171,702	$2.52 per gram dried flower $0.36 per gram dried trim	$ 218,046
v	After harvest cost to complete and sell (per gram)	$0.88 per gram dried flower $0.14 per gram dried trim	$ 127,249	$0.94 per gram dried flower $0.19 per gram dried trim	$ 85,738

(Expressed in United States Dollars, except share amounts)

6. Biological Assets (continued)

[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, 2021 and 2020, it was expected the Company's biological assets would yield 21 and 26 grams of dried flower per plant, respectively, and 31 and 30 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, 2021 and 2020, it is expected that the Company's biological assets will yield approximately 2,031,834 and 1,343,932 grams of dry cannabis flower, respectively, and 3,080,842 and 1,570,160 grams of dry trim, respectively, when harvested. The fair value adjustments on biological assets are presented separately on the Consolidated Statements of Income (Loss) and Comprehensive Income (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.

7. Prepaid Expenses

On August 1, 2021, the Company entered into a prepayment of inventory agreement with a cannabis consumer products company for $1,500,000 of goods at wholesale cost. The Company will receive a minimum discount of 10% on all purchases of inventory from the cannabis consumer products company. As at December 31, 2021, the prepayment had a remaining balance of $717,041 which is included as a component of advances made to suppliers and consultants.

As at December 31, 2021 and 2020, prepaid expenses were comprised of the following:

	2021	2020
Excise taxes	$ 467,844	$ 273,447
Insurance and rent	986,549	471,530
Advances made to suppliers and consultants	1,872,237	248,369
Payroll and income taxes	509,304	281,540
Taxes and fees	11,249	6,923
Licenses and other	485,383	477,204
Total prepaid expenses	$ 4,332,566	$ 1,759,013

8. Other current assets

As at December 31, 2021 and 2020, the Company used the Monte Carlo Simulation option-pricing model ("Monte Carlo model") to estimate the fair value of the conversion option embedded in the FGW note (refer to Note 3) and determined the fair value of the conversion option to be $1,230,655 and $450,069, respectively, which was recorded as a component of other current assets. The change in fair value for the year ended December 31, 2021 of $780,586 is included as a component of fair value gain in other current assets, derivative liabilities and preferred shares in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

(Expressed in United States Dollars, except share amounts)

9. Investments and Advances

The changes in investments and advances were as follows for the years ended December 31, 2021 and 2020:

		Advances	Investments FVTPL	Total
Balance as at December 31, 2019		$ 313,911	$ -	$ 313,911
Transfers from deposits	(b)	-	229,953	229,953
Additions	(b) & (c)	-	270,327	270,327
Interest accrued	(d)	67,562	-	67,562
Impairment recorded	(b) & (d)	(381,473)	(250,280)	(631,753)
Balance as at December 31, 2020		-	250,000	250,000
Conversion of investment with acquisition	(b)	-	(366,000)	(366,000)
Additions	(a)	-	5,000,000	5,000,000
Interest accrued	(a)	-	612,330	612,330
Recovery of investments	(b)	-	116,000	116,000
Changes in fair value	(a)	-	(3,154,319)	(3,154,319)
Balance as at December 31, 2021		$ -	$ 2,458,011	$ 2,458,011

(a) Convertible Debentures

On March 5, 2021, the Company, through one of its subsidiaries, purchased $5,000,000 of 15% Senior Secured Convertible Debentures (the "Debentures") of Loudpack maturing on December 31, 2022. The Debentures bear interest at the rate of 15% and are secured by first and second priority liens on assets of the cannabis consumer products company and its subsidiaries, as well as joint and several guarantees provided by direct and indirect subsidiaries of the cannabis consumer products company 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 the cannabis consumer products company by the Company pertaining to the ultimate use of the funds used to purchase the Debentures. 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 $25,000,000 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 the cannabis consumer product company; (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 $500,000,000 and whose shares have a 60 day trailing average daily trading value of not less than $6,000,000, 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 $212,500,000 prior to November 30, 2021, or $200,000,000 after November 30, 2021.

(Expressed in United States Dollars, except share amounts)

9. Investments and Advances (continued)

(a) Convertible Debentures (continued)

The Debentures may be converted prior to maturity, at the Company's option, in the event that the cannabis consumer products company closes a qualified equity financing, in an amount of not less than $25,000,000, 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 $225,000,000 on a post conversion, fully diluted basis. In addition, prior to maturity the cannabis consumer products company 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 the cannabis consumer products company 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 $225,000,000.

For the year ended December 31, 2021, the Company accrued interest income of $612,330 related to the Debentures.

The Company used the Monte Carlo model to estimate the fair value of the Debentures 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 stock price returns from the comparable public companies as there was insufficient trading history in the Company's shares.

The following assumptions were used to value the Debentures as at December 31, 2021:

		2021
Risk-free interest rate		0.64%
Share price - U.S. $	$	0.36
Expected volatility		89.6%
Expected remaining life		1.75 years
Fair value	$	2,458,011

For the year ended December 31, 2021, the Company recorded fair value changes of $3,154,319 which was recorded as a component of fair value gain in other current assets, derivative liabilities and preferred shares in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

(b) Accucanna, LLC

Accucanna owns a retail dispensary in Desert Hot Springs, California. In April 2018, the Company entered into a management service agreement with Accucanna to provide services related to the dispensary. The initial term was for five years, with automatic renewals for two additional five-year periods, unless, on or before the date of each renewal, the Company or Accucanna determined, in their sole discretion, that the agreements would not renew. The Company recognized management service revenue under the agreement of $146,224 and $310,424 for the years ended December 31, 2021 and 2020, respectively, which was recorded as a component of other income in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

9. Investments and Advances (continued)

(b) Accucanna, LLC (continued)

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 at the Company's option after completion of delivery of cannabis and cannabis related product totaling $500,000 in 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, 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 was recorded as write-downs (recovery) of receivables and investments and advances in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). As at December 31, 2020, the amortized cost was $250,000.

On September 2, 2021, the Company completed the Accucanna Acquisition (Note 3) and concurrently exercised its option under the Stock Purchase Agreement. Prior to closing of the Accucanna Acquisition, the fair value of the option was determined to be $366,000, representing 10% of the purchase price, resulting in a gain of $116,000 which was recorded as a component of write-downs (recovery) of receivables and investments and advances in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

(c) 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 legacy Canadian 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 was recorded as a component of write-downs (recovery) of receivables and investments and advances in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (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 was recorded as a component of impairment loss in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

9. Investments and Advances (continued)

(d) Altai Partners, LLC

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

Further to the above agreement on March 28, 2018, Altai had 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 evidenced by two promissory notes, issued at $250,000 and $500,000, respectively. These promissory notes were to become a loan to subsidiary upon completion of the LUX Acquisition. The advances were to be repaid to the Company should the LUX Acquisition not ultimately close. During the year ended December 31, 2020, the Company recognized interest income of $67,562, related to the promissory notes.

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 related accrued interest, which was recorded as a component of write-downs (recovery) of receivables and investments and advances in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). The impairment represented the write-down of the full carrying value and interest is no longer accruing. Subsequent to year end, the Company entered into a settlement agreement with LUX which calls for certain cash payments to be made to the Company in exchange for the release of any claims by the Company (Note 32).

(Expressed in United States Dollars, except share amounts)

10. Property, Plant and Equipment, net

As at December 31, 2021 and 2020, the Company's property, plant and equipment, net consisted of the following:

	Land	Retail and Agricultural Buildings	Agricultural and Manufacturing Equipment	CIP	Furniture, fixtures, and equipment	Leasehold improvements	Total
At Cost							
As at December 31, 2019	$ 3,404,572	$ 8,900,403	$ 5,873,923	$ 2,559,952	$ 2,070,403	$ 2,540,247	$ 25,349,500
Additions	-	103,320	96,205	340,524	66,267	148,412	754,728
Disposals and transfers	-	-	(5,926)	-	(38,828)	-	(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	2,097,842	405,102	23,775,917
Additions	-	2,995	125,721	2,998,291	113,922	68,322	3,309,251
Business acquisitions (Note 3)	310,000	2,290,000	326,178	517,524	278,129	1,124,688	4,846,519
Disposals and transfers	-	-	(72,210)	(25,994)	(29,312)	129	(127,387)
Reclass on completed phase of construction	-	1,684,336	641,997	(2,343,381)	17,048	-	-
As at December 31, 2021	$ 3,714,572	$ 15,045,824	$ 6,985,888	$ 1,982,146	$ 2,477,629	$ 1,598,241	$ 31,804,300
Accumulated depreciation							
As at December 31, 2019	-	1,213,484	1,610,257	-	588,650	153,094	3,565,485
Disposals	-	-	(198)	-	(14,287)	-	(14,485)
Impairment loss	-	-	-	-	-	(158,096)	(158,096)
Depreciation expense	-	733,485	1,172,347	-	407,995	159,579	2,473,406
As at December 31, 2020	-	1,946,969	2,782,406	-	982,358	154,577	5,866,310
Disposals and transfers	-	35,242	(26,120)	-	(9,746)	(31,753)	(32,377)
Depreciation expense	-	805,892	1,178,227	-	398,340	72,298	2,454,757
As at December 31, 2021	$ -	$ 2,788,103	$ 3,934,513	$ -	$ 1,370,952	$ 195,122	$ 8,288,690
Net Book Value							
As at December 31, 2020	3,404,572	9,121,524	3,181,796	835,706	1,115,484	250,525	17,909,607
As at December 31, 2021	$ 3,714,572	$ 12,257,721	$ 3,051,375	$ 1,982,146	$ 1,106,677	$ 1,403,119	$ 23,515,610

Depreciation expense of $2,454,757 and $2,473,406 was recorded for the years ended December 31, 2021 and 2020, respectively, as follows:

	2021	2020
Cost of goods sold - wholesale	$ 2,065,015	$ 2,023,820
Expenses	389,742	449,586
Total depreciation and amortization relating to property, plant and equipment, net	$ 2,454,757	$ 2,473,406

Management determined that the Company's leasehold improvements related to SLWS were impaired as at December 31, 2020 due to the legal issues related to the lease (Note 28). Accordingly, the Company recorded an impairment loss of $2,125,461 for the year ended December 31, 2020.

11. Intangible Assets and Goodwill

During the year ended December 31, 2021, the Company acquired $32,600,000 and $17,375,566 of intangible assets and goodwill as a result of the Sublime Acquisition and Accucanna Acquisition (Note 3).

HARBORSIDE INC.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020
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11. Intangible Assets and Goodwill (continued)

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).

A reconciliation of the beginning and ending balances of intangible assets and goodwill for the years ended December 31, 2021 and 2020 was as follows:

	Intangible Assets					
	Licenses	Trademark	Developed technology	Customer relationships	Total	Goodwill
At Cost						
Balance as at December 31, 2019	$ 53,832,884	$ 46,666	$ -	$ -	$ 53,879,550	$ 14,366,055
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
Additions (Note 3):						
Sublime acquisition	13,400,000	6,800,000	3,200,000	6,300,000	29,700,000	17,372,223
Accucanna acquisition	2,900,000	-	-	-	2,900,000	3,343
Impairment	(24,674,884)	(23,267)	-	-	(24,698,151)	(535,044)
Balance as at December 31, 2021	$ 49,500,000	$ 6,823,399	$ 3,200,000	$ 6,300,000	$ 65,823,399	$ 31,206,577
Accumulated Amortization						
As at December 31, 2020	$ -	$ 13,659	$ -	$ -	$ 13,659	$ -
Amortization	-	233,969	316,558	566,569	1,117,096	-
As at December 31, 2021	$ -	$ 247,628	$ 316,558	$ 566,569	$ 1,130,755	$ -
Net book value						
As at December 31, 2020	57,874,884	33,007	-	-	57,907,891	14,366,055
As at December 31, 2021	$ 49,500,000	$ 6,575,771	$ 2,883,442	$ 5,733,431	$ 64,692,644	$ 31,206,577

Amortization expense of $1,117,097 and $13,659 was recorded for the years ended December 31, 2021 and 2020, respectively.

As at December 31, 2021 and 2020, 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 FVLCD was higher than the CGUs value in use ("VIU"). The key assumptions used in these 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 was extended to a total of five years (with a terminal year thereafter);

- Terminal value growth rate: The terminal growth rate of 2.5% to 3.2% for 2020 and 2021, was based on historical and projected customer price inflation, historical and projected economic indicators, and projected industry growth; and

- Discounted rate: The post-tax discount rate for the California operating segment was 16.5% and 21.5% (17% - 2020). The post-tax discount rate used for the Oregon operating segment was 11.5%. No post-tax discount rate was used for the Oregon operating segment for 2020.

(Expressed in United States Dollars, except share amounts)

11. Intangible Assets and Goodwill (continued)

As at December 31, 2020, management determined there was no impairment for goodwill and intangible assets. As at December 31, 2021, management determined that there should be impairment charges of $24,698,151 on the intangible assets, and that the carrying value exceeded the recoverable amount of goodwill by $535,044 for the Oregon reporting unit. These impairment charges totaling $25,233,195 are recognized in impairment loss in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

12. Right-of-use Assets and Lease Liabilities

Right-of-use Assets

As at December 31, 2021 and 2020, the Company's right-of-use assets consisted of the following:

		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
Additions		112,122
Acquired leases		270,810
Balance as at December 31, 2021	$	6,101,302
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
Amortization expense		657,369
Balance as at December 31, 2021	$	1,667,905
Net book value		
As at December 31, 2020		4,707,834
As at December 31, 2021	$	4,433,397

Lease Liabilities

The Company's lease liabilities consist of various real property leases. 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, 2021 and 2020 was 10% and 8.5%, respectively, for leases acquired in acquisitions.

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 28). During the year ended December 31, 2021, 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 was included as a component of impairment loss in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). In addition, the Company recorded an impairment loss of $2,125,461 related to the property's leasehold improvements (Note 10).

(Expressed in United States Dollars, except share amounts)

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

Lease Liabilities (continued)

The following is a summary of the activity in the Company's lease liability for the year ended December 31, 2021:

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 as at December 31, 2020	6,446,981
Acquired leases	359,615
Lease payments	(1,456,450)
Lease modification	100,832
Interest expense	877,906
Ending lease liability as at December 31, 2021	6,328,884
Less: current portion	(714,181)
Non-current lease liability	$ 5,614,703

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

Due within one year	$ 1,480,884
Due within one to five years	4,090,854
Due after five years	7,452,903
Total	$ 13,024,641

The Company recognized no material expenses related to short-term leases and leases of low-value assets for the years ended December 31, 2021 and 2020.

13. Accounts Payable and Accrued Liabilities

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

The Company's accounts payable and accrued liabilities consist of the following as at December 31, 2021 and 2020:

	2021	2020
Accounts payable	$ 9,752,220	$ 7,061,561
Accrued liabilities	11,824,977	8,102,545
Accrued payroll	2,115,617	2,034,609
Total accounts payable and accrued liabilities	$ 23,692,814	$ 17,198,715

(Expressed in United States Dollars, except share amounts)

14. Note Payable and Accrued Interest

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

Subsequent to the 2017 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 had the option to extend the term of the Lease for an additional three years.

The Lease granted 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 had the ability to exercise its call option for two months at every six-month interval.

On February 25, 2021, the Company provided notice to CFP with its intent to exercise its call option to purchase the Production Campus and on June 1, 2021, the Company purchased the property for a total property price of $10,814,425. As at December 31, 2021, there was no remaining balance due to CFP and during the year ended December 31, 2021 the Company recognized a gain from debt extinguishment of $128,417. As at December 31, 2020, the balance included $9,080,000 principal and accrued interest of $1,646,421.

A reconciliation of the beginning and ending balance of the note payable and accrued interest for the years ended December 31, 2021 and 2020 was as follows:

	2021	2020
Balance, beginning of year	$ 10,726,421	$ 10,204,744
Cash payments	(10,814,425)	-
Interest accruals	594,756	1,384,279
Interest cash payments	(378,335)	(862,602)
Gain on debt extinguishment	(128,417)	-
Balance, end of year	$ -	$ 10,726,421

15. Revolving Credit Facility

On March 19, 2021, the Company entered into a $12,000,000 senior secured revolving credit facility (the "Facility") with a federally regulated commercial bank (the "Bank"), as amended on June 29, 2021 and December 6, 2021.

On May 28, 2021, the Company drew down the remaining $11,453,600 on the Facility. The net proceeds of the Facility were deposited into an escrow account and used to repurchase the Production Campus (Note 14).

Subsequent to year end and, in conjunction with the Roll Up Financing, the Facility was paid in full and terminated in February, 2022 (see Notes 16 and 32).

The Facility included a maturity date of March 2023, and featured a variable interest rate based on the prime rate charged by the Bank plus 2.5%, with a floor rate of 5.75%, and was secured by a first-priority security interest on substantially all of the Company's assets. The Facility required an interest reserve, which was recorded as restricted cash in the accompanying Consolidated Statements of Financial Position. As at December 31, 2021, the interest reserve amounted to $316,464.

(Expressed in United States Dollars, except share amounts)

15. Revolving Credit Facility (continued)

As consideration for the Facility, the Company, among other things: (i) delivered a commercial security agreement, an assignment of deposit accounts, and a security agreement in respect of cash collateral to the Bank; (ii) made an upfront cash payment based on the principal amount of the Facility to the Bank as an original issue discount; and (iii) issued 4,100 warrants to the Bank to purchase MVS (the "MVS Warrants"), each of which entitled the Bank to purchase one MVS of the Company at a price of C$369, at any time prior to March 19, 2023. The MVS Warrants were subject to the Mandatory Conversion, and are now exercisable for 100 SVS for each MVS warrant (see Note 32).

The Facility was subject to covenant clauses, whereby the Company was required to meet certain financial ratios. As at December 31, 2021, the Company was in compliance with these covenants.

The fair value of the warrants was determined using a Black-Scholes-Merton option pricing model with the following assumptions as at March 19, 2021:

Risk-free interest rate		0.17%
Exercise price - U.S. $	$	2.95
Share price - U.S. $	$	1.98
Expected volatility		131%
Expected remaining life		2 years
Fair value	$	466,716

The warrants are included as a component of deposits and other assets in the accompanying Consolidated Statements of Financial Position. The warrants are amortized on a straight-line basis over the two-year term of the Facility. As at December 31, 2021, the warrants had an amortized cost of $284,454.

The associated loan fees charged with obtaining the Facility were recorded as a reduction to the carrying amount and are being amortized as interest expense within the consolidated financial statements over the two-year term.

As at December 31, 2021, the outstanding balance less unamortized deferred financing costs was $11,845,678. As at December 31, 2021, unamortized deferred financing costs amounted to $154,322.

16. Roll Up Financing

On November 29, 2021, in conjunction with the intended acquisitions of Urbn Leaf and Loudpack, the Company announced that it had signed a non-binding term sheet with Pelorus Equity Group ("Pelorus") for a total of $77.3 million of debt financing (the “Roll Up Financing”) which would be used primarily to retire certain existing loans, including the Facility, and provide additional working capital to the Company, Urbn Leaf and Loudpack. The Roll Up Financing contains a nominal interest rate of 10.25%, along with specified origination, closing and other transaction fees, and is secured by certain real estate assets and cannabis licenses of the Company, Urbn Leaf and Loudpack. It is also subject to debt service ratio requirements, interest reserves, certain cross-corporate guarantees and defaults, subordination agreements and intercreditor agreements, along with a general corporate guaranty from the Company. Subsequent to the year ended December 31, 2021, the Roll Up Financing was funded in two tranches, with the first occurring prior to closing on the acquisitions of Urbn Leaf and Loudpack, and the second tranche funded to the Company post-closing (Note 32). The first tranche was funded in three separate loans, with one loan each to Urbn Leaf, Loudpack and the Company.

17. Convertible Debentures

Secured Convertible Notes

On August 29, 2018, Lineage Grow Company Ltd. ("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. In connection with the reverse takeover transaction ("RTO Transaction"), the Company assumed the Secured Convertible Notes. The Secured Convertible Notes were convertible, at the option of the holder, into SVS at a conversion price of C$0.35 per share multiplied by 41.818182 which equated to approximately C$14.64. Interest accrued on the principal amount at 12.0% per annum until the earlier of either (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 was 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 was 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 was not exercised 30 days before the Second Payment Due Date (paid on October 6, 2020); and

(iii) The balance on the third anniversary of the Secured Convertible Notes, if the Conversion Option was not exercised 30 days before the three-year anniversary of the Secured Convertible Notes (paid on August 30, 2021).

The Secured Convertible Notes, and the portion related to the conversion feature, were classified as liabilities. The conversion feature did not meet the equity classification, as there were contractual terms which resulted 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 was affected by changes in the fair value of the Company's SVS. On May 30, 2019, the host debt instrument was fair valued using a market rate of approximately 23.0% and the conversion feature was fair valued (Note 18). After initial recognition, the Secured Convertible Notes were 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 Income (Loss) and Comprehensive Income (Loss).

(Expressed in United States Dollars, except share amounts)

17. Convertible Debentures (continued)

Secured Convertible Notes (continued)

As at December 31, 2021 and 2020, changes to the Secured Convertible Notes were as follows:

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
Interest and accretion expense	26,092
Principal amount paid	(500,000)
Balance as at December 31, 2021	$ -

18. 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 Warrants Derivative Liability	Series D Warrant Liability (a)	Secured Convertible Notes Conversion Feature (b)	SVS Warrants and MVS Warrants Liability (c)	Total
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
Fair value of derivative liabilities on issuance	-	-	-	14,532,072	14,532,072
Change in fair value of derivative liabilities	-	(16,842)	(4,338)	(13,935,229)	(13,956,409)
Effects of foreign exchange	-	-	-	182,800	182,800
Balance as at December 31, 2021	$ -	$ -	$ -	$ 779,643	$ 779,643

(a) Series D Offerings Warrant Liability

On May 17, 2019, pursuant to an agency agreement among FLRish Inc. ("FLRish"), AltaCorp Capital Inc. and FMI, a formerly related party to the Company (Note 27), (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 C$7.00 per Subscription Receipt (the "Concurrent Offering Price") for gross proceeds of approximately $13,037,856 (C$17,559,038). In addition, FLRish completed a concurrent 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", 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).

(Expressed in United States Dollars, except share amounts)

18. Derivative Liabilities (continued)

(a) Series D Offerings Warrant Liability (continued)

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 were 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 entitled 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. 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 failed to meet the definition of equity and, accordingly, had 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 stock price returns from the 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.

There were no Series D Warrants Liabilities outstanding as at December 31, 2021.

The following assumptions were used to value the Series D Warrants liabilities as at December 31, 2020:

		December 31, 2020
Risk-free interest rate		0.09%
Exercise price - U.S. $	$	6.84
Share price - U.S. $	$	1.53
Expected volatility		104.90%
Expected remaining life		0.38 year
Fair value	$	16,842

(Expressed in United States Dollars, except share amounts)

18. Derivative Liabilities (continued)

(b) Secured Convertible Notes Conversion Feature

As part of the RTO Transaction, the Company assumed the Secured Convertible Notes (Note 17). 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:

	December 31, 2020
Share price - CAD $	CAD$1.96
Conversion price - CAD $	CAD$14.64
Expected remaining life	0.66 year
Volatility	89.16%
Risk-free interest rate	0.09%
Fair value	$ 4,338

The Secured Convertible Notes, and the portion related to the conversion option, were classified as liabilities. The conversion feature did not meet equity classification, as there were contractual terms which resulted in the potential adjustment to the conversion price. In failing the equity classification, the conversion feature was accounted for as an embedded derivative liability as its fair value was affected by changes in the fair value of the Company's SVS. The effect was that the Secured Convertible Notes were 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.

The Secured Convertible Notes were not outstanding as at December 31, 2021.

(c) Private Placement Offering of SVS Warrants and MVS Warrants

On February 18, 2021, the Company issued SVS Warrants (as defined below) and MVS Warrants (as defined below) (collectively, the "Warrants"), in connection with an upsized brokered private placement of units. The warrants are classified as a liability based on the fixed-for-fixed criterion under IAS 32, *Financial Instruments: Presentation*. Due to the Mandatory Conversion (see Note 32), the MVS Warrants will be instead calculated using the corresponding amount of SVS using a ratio of 100 SVS per MVS.

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 stock price returns from the comparable public companies as there was insufficient trading history in the Company's shares.

The following assumptions were used to value the SVS Warrants as at December 31, 2021 and February 18, 2021:

	December 31, 2021	February 18, 2021
Risk-free interest rate	0.92%	0.35%
Exercise price - CAD	C$3.69	C$3.69
Share price - CAD	C$0.46	C$2.65
Expected volatility	108.74%	111.40%
Expected remaining life	2.13 years	3 years
Fair value	$328,867	$6,128,298

(Expressed in United States Dollars, except share amounts)

18. Derivative Liabilities (continued)

(c) Private Placement Offering of SVS Warrants and MVS Warrants (continued)

The following assumptions were used to value the MVS Warrants as at December 31, 2021 and February 18, 2021:

	December 31, 2021	February 18, 2021
Risk-free interest rate	0.92%	0.35%
Exercise price - CAD	C$369	C$369
Expected volatility	108.74%	111.40%
Expected remaining life	2.13 years	3 years
Fair value	$450,776	$8,403,774

19. Provisions

IRC §280E

Certain subsidiaries of the Company operate in the cannabis industry and are subject to IRC §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 §280E. Many of the central issues relating to the interpretation of IRC §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 IRC §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.

The Company has engaged outside counsel in an attempt to successfully negotiate the settlement and subsequent payment of its potential liabilities under IRC §280E, but it 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 of these consolidated financial statements.

Although the Company, as described above, 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, 2021, the reserve totaled $36,051,249 (December 31, 2020 - $37,758,875), a sum which includes the separate tax proceedings described below. During September 2021, the Company revised its estimate related to the 2017 tax year for both PMACC and SJW and recognized a gain of $5,295,602.

(Expressed in United States Dollars, except share amounts)

19. Provisions (continued)

PMACC

PMACC is currently involved in two separate tax proceedings. The first, *PMACC v. Commissioner*, was 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 §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 period 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.

In a second Tax Court proceeding related to deductions barred by IRC §280E, the IRS issued a notice of deficiency disallowing all deductions taken and asserting that PMACC owed $16,035,218 in additional taxes and penalties for fiscal 2016. The Company filed its initial petition in this case to the Tax Court on February 13, 2020. As the Ninth Circuit has ruled on the earlier PMACC tax case, this matter is expected to be put back on the Tax Court calendar sometime during the year ended December 31, 2022.

SJW

SJW is involved in two separate tax proceedings. The first involves the 2010, 2011, and 2012 tax years, and in this case, the IRS asserted a tax deficiency of $2,120,215. The second proceeding 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.

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. Based on the deficiencies assessed by the court, the Company accrued an additional $523,600 related to the 2015 tax year as at December 31, 2020. The Company appealed the Tax Court decisions on May 14, 2021. In an effort to resolve the matter as part of a global settlement, the Company withdrew its appeal.

20. General and Administrative Expenses

For the years ended December 31, 2021 and 2020, general and administrative expenses consisted of the following:

	2021	2020
Advertising and promotion	$ 1,619,414	$ 947,285
Bad debt expense	-	1,447
Banking and processing fees	1,128,102	784,621
Other general administrative	111,699	59,194
Office and general expenses	5,555,518	4,503,393
Salaries and benefits	11,319,889	11,219,052
Sales and marketing	1,202,564	-
Taxes and licenses	2,176,263	384,967
Travel and entertainment	350,678	263,698
Total	$ 23,464,127	$ 18,163,657

(Expressed in United States Dollars, except share amounts)

21. Income Taxes

Harborside Inc. is treated as a U.S. corporation for U.S. federal income tax purposes under IRC §7874 and is subject to U.S. federal income tax. However, for Canadian tax purposes, the Corporation is expected, regardless of any application of IRC §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 allocated for the years ended December 31, 2021 and 2020 was follows:

	2021	2020
Current tax	$ 5,906,570	$ 5,580,673
Deferred tax	(7,684,678)	534,459
Income tax (benefit) expense	$ (1,778,108)	$ 6,115,132

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 mainly due to limitations in the deductibility of certain expenses for tax purposes under IRS §280E as well as fair value adjustments for biological assets and derivative liabilities.

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:

	2021	2020
Net loss before income taxes	$(28,145,739)	$(5,831,558)
Expected income tax benefit based on statutory rate	(5,910,605)	(1,224,627)
Adjusted to expected income tax benefit		
Difference due to state rate	(2,397,963)	(175,902)
Share-based compensation	165,426	955
IRC §280E adjustment	7,145,549	4,659,496
Fair value change in derivative liability	(2,146,110)	-
Other expense not deductible for tax	-	(217,891)
Changes in benefit of tax asset not recognized	1,365,595	3,073,101
Income tax (benefit) expense	$(1,778,108)	$ 6,115,132

(Expressed in United States Dollars, except share amounts)

21. Income Taxes (continued)

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, 2021 and 2020:

	2021	2020
Deferred tax assets		
Non-deductible interest	$ 232,576	$ 162,910
Net operating losses	-	81,767
Inventories	705,138	-
Biological assets	284,251	-
Total deferred tax assets	1,221,965	244,677
Deferred tax liabilities		
Intangible assets	(18,170,365)	(15,464,444)
Property, plant and equipment	(298,753)	(538,694)
Biological assets	-	(150,164)
Right-of-use assets	(116,306)	(131,196)
Inventories	-	(125,188)
Other	-	(20,648)
Total deferred tax liabilities	(18,585,424)	(16,430,334)
Net deferred tax liabilities	$(17,363,459)	$(16,185,657)

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, 2021 and 2020 was as follows:

	2021	2020
Balance, beginning of year	$ 16,185,657	$ 15,651,198
Recognized in loss	(7,684,678)	534,459
Net deferred tax liability from acquisitions (Note 3)	8,862,480	-
Balance, end of year	$ 17,363,459	$ 16,185,657

(Expressed in United States Dollars, except share amounts)

21. Income Taxes (continued)

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:

	2021	2020
Provision for expected credit losses	$ 4,296,055	$ 3,230,856
Non-capital losses carryforward - Canada	16,815,850	10,989,324
Federal net operating loss	31,812,335	25,853,271
State net operating loss	36,931,312	34,390,770
Intangibles	8,694	9,434
Property, plant and equipment	2,153,263	746,480
Non-deductible interest	170,079	5,091,314
Other assets	219,327	244,156
Investments, capital gain (Canada)	74,610	74,610
Inventories	106,473	-
Capital losses	2,137,574	2,137,574
Right of usage	553,412	542,296
Resource pools - Mineral Properties	620,742	620,742
Discount on loans payable	1,890,570	1,890,570
Charitable contribution carryover	43,174	29,513
Stock options expense NQSO	1,285,536	1,285,536
Interest not deductible	1,965,263	1,953,577
Investment lineage Canadian entity	934,059	934,059
	$ 102,018,328	$ 90,024,082

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

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	517,250	-	517,250
2035	1,196,359	-	1,196,359
2036	5,785,669	175,746	5,961,415
2037	2,453,530	159,769	2,613,299
2038	-	883,293	883,293
2039	8,555,543	3,306,885	11,862,428
2040	21,527,801	4,255,288	25,783,089
2041	1,339,490	5,936,574	7,276,064
Indefinite life	27,368,007	-	27,368,007
Total	$ 68,743,649	$ 16,815,851	$ 85,559,500

(Expressed in United States Dollars, except share amounts)

22. Share Capital

The following is a reconciliation of the issued and outstanding shares as at December 31, 2021 and 2020:

	Subordinate Voting Shares (SVS)	Multiple Voting Shares (MVS)
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 on settlement of restricted share awards	534,000	-
Balance, December 31, 2020	26,535,608	179,096.42
Conversion of MVS to SVS	5,769,075	(57,690.75)
Issuance of new shares	5,806,700	302,965.06
Issuance on exercise of options	1,414,024	-
Issuance on settlement of restricted share awards	-	1,600.00
Balance, December 31, 2021	39,525,407	425,970.73

On February 18, 2021, the Company closed an upsized brokered private placement of units at a price of C$2.55 per SVS Unit (as defined below) and C$255.00 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 nonresidents 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 are considered residents of the U.S. were issued units (each, an "MVS Unit") comprised of MVS of the Company and MVS Warrants, based on the same economic equivalency of each MVS converting into 100 SVS. The holders of MVS were 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. As a result of the Mandatory Conversion, all MVS issued have been converted into SVS, and holders of MVS Warrants are now entitled to receive, upon exercise of such MVS Warrants, one hundred (100) SVS per MVS Warrant at an exercise price of $369 per MVS Warrant (not taking into account the Consolidation) (Note 32).

The SVS Warrants and MVS Warrants were valued on February 18, 2021 at $6,128,298 and $8,403,774, respectively, based on an implied share price of C$1.34 and C$134.06, respectively, valued based on the Monte Carlo model. The key assumptions used have been discussed in Note 18.

In consideration for their services, the Company paid the Agents a cash commission equal to C$1,451,340 and issued the Agents an aggregate of 569,154 Broker Warrants ("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.

The Broker Warrants were valued on February 18, 2021 at $1,134,112 based on an implied share price of C$2.53 valued based on the Monte Carlo model. The key assumptions used have been discussed in Note 24.

22. Share Capital (continued)

As certain insiders and other related parties of the Company participated in the Offering, it is 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 is exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 (pursuant 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.

The total share issuance costs related to the Offering was C$1,756,873, which includes the commission noted above and other professional fees.

On March 31, 2022, the Company enacted the Mandatory Conversion of all the MVS into SVS at a ratio of 100 SVS for each MVS outstanding (Note 32).

23. Contributed Surplus

Stock Options

Prior to June 30, 2020, the Company maintained an equity incentive plan (the "Old 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 Old 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 "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 Plan vest in accordance with the terms established by the Board at the time of grant. The Plan was ratified by the Company's shareholders on November 24, 2020.

On January 17, 2022, the Company adopted an amended and restated equity incentive plan (the "A&R Plan") to amend the Plan in order to increase the maximum number of SVS which may be allocated for issuance pursuant to Incentive Stock Options (as defined in the A&R Plan) to up to 23,355,026 SVS or such lesser amount as determined by the Board. The A&R Plan was ratified by the Company's shareholders on February 22, 2022.

(Expressed in United States Dollars, except share amounts)

23. Contributed Surplus (continued)

Stock Options (continued)

The following table summarizes the stock option activities for the years ended December 31, 2021 and 2020:

	Number of options outstanding	Weighted average exercise price $
Balance, December 31, 2019	4,305,901	1.66
Options exercised	(848,654)	0.05
Options expired/forfeited/cancelled	(296,349)	0.05
Options granted	3,475,000	0.76
Balance, December 31, 2020	6,635,898	1.47
Options exercised	(1,414,024)	0.14
Options expired/forfeited/cancelled	(1,819,582)	1.81
Options granted	1,221,860	0.62
Balance, December 31, 2021	4,624,152	1.51

During the years ended December 31, 2021 and 2020, the Company recorded aggregate share-based compensation of $787,743 and $1,054,124, respectively, for all stock options vesting during these periods. During the years ended December 31, 2021 and 2020, the Company received cash consideration of $200,291 and $42,433, respectively, for the exercise of 1,414,024 and 848,654 vested options, respectively.

During the year ended December 31, 2021, the Company granted 536,875 new options under the Plan to the Board and certain employees of the Company, with each option exercisable into one SVS at an exercise price of C$1.78 per SVS, for a period of three years from the date of grant.

The fair value of stock options granted by the Company during the years ended December 31, 2021 and 2020, under the Plan, were estimated on the grant using the Black-Scholes option pricing model with the relevant assumptions outlined in the table below. The expected volatility was estimated based on volatility ranges acceptable in practice. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the Bank of Canada three-year bond yield rate at the time of the grant of the award. Expected annual dividends is based on the fact that the Company has never paid cash dividends and does not expect to pay cash dividends in the foreseeable future.

	2021	2020
Stock price at grant date	CAD 1.78 - 2.21	CAD 0.95 - 2.02
Exercise price at grant date	CAD 1.78 - 2.21	CAD 0.95 - 1.83
Expected life in years	3 - 4 years	2.5 - 4.5 years
Expected volatility	100%	100%
Expected annual rate of dividends	0%	0%
Risk-free annual interest rate	0.48% - 0.82%	0.27% - 0.43%

(Expressed in United States Dollars, except share amounts)

23. Contributed Surplus (continued)

Stock Options (continued)

As at December 31, 2021, 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
April 25, 2018	July 1, 2022	200,000	200,000	$ 4.150	0.50
July 5, 2019	July 5, 2022	262,500	262,500	$ 0.060	0.51
May 24, 2018	July 19, 2022	11,957	11,957	$ 8.243	0.55
December 14, 2018	July 19, 2022	8,152	8,152	$ 5.443	0.55
September 1, 2020	July 19, 2022	510,000	510,000	$ 0.749	0.55
May 24, 2018	May 24, 2023	2,989	2,989	$ 8.243	1.39
December 14, 2018	December 14, 2023	2,989	2,989	$ 5.443	1.95
September 1, 2020	September 1, 2025	865,000	536,390	$ 0.749	3.67
December 23, 2020	December 23, 2025	840,000	-	$ 1.444	3.98
June 11, 2021	June 11, 2026	637,485	-	$ 1.743	4.45
July 2, 2021	July 2, 2026	536,875	-	$ 1.404	4.50
August 1, 2016	August 1, 2026	60,478	60,478	$ 0.050	4.59
July 26, 2017	July 26, 2027	1,060	1,060	$ 0.050	5.57
April 25, 2018	April 25, 2028	566,667	566,667	$ 4.150	6.32
May 7, 2018	May 7, 2028	15,000	15,000	$ 4.150	6.35
May 15, 2018	May 15, 2028	43,000	43,000	$ 4.150	6.38
June 25, 2018	June 25, 2028	10,000	10,000	$ 4.150	6.49
September 12, 2018	September 12, 2028	50,000	50,000	$ 4.150	6.70
Total		4,624,152	2,281,182		3.66

The weighted average remaining contractual life of outstanding options as at December 31, 2021 is 3.66 years.

Restricted Stock Awards

No RSAs were granted during the years ended December 31, 2021 and 2020. During the year ended December 31, 2020, 534,000 of the original 769,000 RSAs granted in 2018 were settled, resulting in the issuance of 534,000 SVS. The remaining balance of RSAs as at December 31, 2021 was 75,000.

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 year ended December 31, 2020, the Company recorded share-based compensation expense of $4,547, in relation to the vesting of the RSAs. There was no expense recorded during the year ended December 31, 2021.

(Expressed in United States Dollars, except share amounts)

24. Reserve for Warrants

The activity for warrants outstanding for the years ended December 31, 2021 and 2020 is summarized as follows:

	Subordinate Voting Shares		
	Number of warrants outstanding	Weighted average exercise price CAD	Weighted average exercise price USD
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	6.10
Warrants expired	(2,806,981)	8.75	6.88
Broker Warrants expired	(160,775)	7.00	5.50
Broker Warrants expired	(311,544)	6.90	5.42
Issuance of SVS Warrants	5,806,700	3.69	2.91
Issuance of Broker Warrants	569,154	2.55	2.01
Balance, December 31, 2021	6,375,854	3.59	2.54

	Multiple Voting Shares		
	Number of warrants outstanding	Weighted average exercise price CAD	Weighted average exercise price USD
Balance, December 31, 2020	-	-	-
Issuance of MVS Warrants	79,592	369.00	291.00
Issuance of warrants to the Bank	4,100	369.00	291.00
Balance, December 31, 2021	83,692	369.00	291.00

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

Warrants

On February 18, 2021, the Company issued 5,806,700 SVS and 79,592 MVS Warrants in connection with the Offering (Note 22). Each SVS Warrant entitles the holder thereof to purchase one SVS of the Company at an exercise price of C$3.69 per share until February 18, 2024. Each MVS Warrant entitles the holder thereof to purchase one MVS of the Company at an exercise price of C$369 per share until February 18, 2024. Due to the Mandatory Conversion (Note 32), all MVS Warrants previously exercisable into MVS, are now exercisable into SVS. In particular, each holder of MVS Warrants is now entitled to receive, upon exercise of the MVS Warrants, one hundred SVS per MVS Warrant at an exercise price of $369 per MVS Warrant (not taking into account the Consolidation).

The SVS Warrants and MVS Warrants are being accounted for as a derivative liability (Note 18). To calculate the weighted average exercise price and weighted average remaining life of all MVS warrants are multiplied by 100.

On March 19, 2021, the Company issued 4,100 warrants to purchase MVS to the Bank in connection with the Facility (Note 15), exercisable at a price of C$369 per MVS, at any time prior to March 19, 2023. The MVS Warrants are subject to the terms of the Mandatory Conversion, and are now exercisable at 100 SVS per each MVS Warrant (Note 15 and 32).

(Expressed in United States Dollars, except share amounts)

24. Reserve for Warrants (continued)

Warrants (continued)

The warrants issued to the Bank are being accounted for as other assets and amortized on a straight-line basis over the two-year term of the Facility.

Broker Warrants

As detailed in Note 22, the Company issued 569,154 Broker Warrants to the Agents as compensation in connection with the Offering. 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 will be issued and will be exercisable at C$3.69 per share until February 18, 2024.

The Broker warrants were valued based on the Monte Carlo model at the date of measurement with the following assumptions:

	February 18, 2021
Risk-free interest rate	0.35%
Exercise price - CAD	C$2.55
Share price - CAD	C$2.65
Expected volatility	111.40%
Expected remaining life	1 year
Fair value - CAD	C$1,439,960
Fair value - US	$1,134,112

The following table summarizes information of warrants outstanding as at December 31, 2021:

Date of expiry	**Number of warrants outstanding**	**Weighted Average Exercise price (CAD)**	**Weighted Average Exercise price (USD)**	**Weighted average remaining life**
March 19, 2023	4,100	369.00	291.00	1.21
February 18, 2024	5,806,700	3.69	2.91	2.13
February 18, 2022	569,154	2.55	2.01	0.13
February 18, 2024	79,592	369.00	291.00	2.13
Total	6,459,546	8.32	6.56	1.95

25. Non-controlling interests

As at December 31, 2021 and 2020, the Company held a 21% ownership interest in FGW. There were no changes in ownership interest for the year ended December 31, 2021.

The change in non-controlling interests was as follows:

Balance, December 31, 2020	$ 3,066,630
Share of loss for the period	(209,165)
Balance, December 31, 2021	$ 2,857,465

(Expressed in United States Dollars, except share amounts)

26. Net loss per share

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

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, 2021 and 2020, the number of shares outstanding are retroactively adjusted to reflect the legal capital of the accounting acquiree. 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. Approximately 270,000 of potentially dilutive securities for the year ended December 31, 2021 were excluded in the calculation of diluted loss per share as their impact would have been anti-dilutive due to the net loss in the period.

On March 31, 2022, the Company enacted the Mandatory Conversion of all the MVS into SVS at a ratio of 100 SVS for each MVS outstanding (Note 32).

The following is a reconciliation for the calculation of basic and diluted loss per share for the years ended December 31, 2021 and 2020:

	2021	2020
Net loss attributable to Harborside Inc.	$ (26,158,466)	$ (11,946,690)
Dilutive weighted average number of shares outstanding	68,158,181	42,505,013
Basic and diluted loss per share	$ (0.38)	$ (0.28)

27. 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, benefits, one-time bonuses and share-based compensation) awarded to key management for the years ended December 31, 2021 and 2020 was as follows:

	2021	2020
Short-term employee benefits, including salaries and director fees	$ 1,387,122	$ 2,216,320
Executive bonus	246,250	157,500
Severance payments	-	829,162
Share-based compensation - Directors and Executives	570,285	813,537
Total	$ 2,203,657	$ 4,016,519

On December 31, 2020, Steve DeAngelo, former CEO and director of FLRish and former Chairman Emeritus of the Company separated from the Company. As at December 31, 2021 and 2020, the Company had accrued estimated severance payments of $428,359 and $829,162, respectively, as a component of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

Peter Bilodeau, former Interim Chief Executive Officer ("CEO") of Harborside resigned as Interim CEO of the Company on July 19, 2021. As at December 31, 2021, there were no amounts payable to Emtra Business Services, Inc., a company controlled by Mr. Bilodeau, through which he was compensated for his services (December 31, 2020 - $26,250).

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

(a) Key Management Compensation (continued)

On July 19, 2021, Matt Hawkins, Chairman of the Board, assumed the position of Interim CEO of Harborside. As at December 31, 2021, $31,984 was payable to Cresco Capital Management II, LLC, an entity doing business as Entourage ("Entourage"), through which Mr. Hawkins is compensated for his services as the Interim CEO of the Company. Entourage is controlled and directed by Matt Hawkins and Andrew Sturner, directors of the Company. Subsequent to year end, Mr. Hawkins resigned as Interim CEO (Note 32).

On July 19, 2021, Ahmer Iqbal was appointed Chief Operating Officer of the Company. As at December 31, 2021, there were no amounts payable to Mr. Iqbal.

As at December 31, 2021, there were no amounts payable to Greg Sutton, the former Chief Operating Officer of Cultivation and Manufacturing of the Company (December 31, 2020 - $2,463).

As at December 31, 2021, $34,720 was payable to Newhouse Development LLC ("Newhouse"), a company controlled by Tom DiGiovanni, the Chief Financial Officer ("CFO"), through which Mr. DiGiovanni is compensated for his services as CFO of the Company (December 31, 2020 - $35,604).

As at December 31, 2021, $161,198 was payable to the directors for the fourth quarter director fees (December 31, 2020 - $21,529).

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 C$0.95 per share. 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. 1,625,000 of the options expire on September 1, 2025 and the remaining 610,000 expired on November 24, 2021.

On December 23, 2020, an aggregate of 840,000 options were granted to the new Board of Directors with an exercise price of C$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.

(Expressed in United States Dollars, except share amounts)

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

(b) Related Parties

		Transactions for the years ended 2021	Transactions for the years ended 2020	Balance outstanding 2021	Balance outstanding 2020
Purchases of goods or services from related parties:					
Sublime	Matthew Hawkins and Andrew Sturner, directors of the Company are partners at Entourage Effect Capital which is an investor in Sublime. As of July 2, 2021, Sublime was acquired by the Company (Note 3).	$ 292,084	$ 170,236	$ -	$ 56,788
Nutritional High International Inc.	Adam Szweras, a former director of the Company, serves as the Chairman of the Board of the Directors of Nutritional High International Inc. As of November 2020, Mr. Szweras is no longer a related party of the Company.	$ -	$ 334,607	$ -	$ 4,449
Flow Cannabis Co.	Kevin Albert, a director of the Company, serves as a director on the board of Flow Cannabis Co.	$ 833	$ 91,993	$ 1,517	$ 6,705
Branson Corporate Services Ltd. ("Branson")	Branson provided finance, accounting and administrative services to the Company. Mr. Bilodeau holds a 16% ownership interest in Branson. As at July 2021, Mr. Bilodeau is no longer a related party of the Company. As at December 31, 2021, the Company no longer uses Branson.	$ 154,680	$ 280,213	$ -	$ 15,975
Black Oak Ventures ("Black Oak")	Black Oak provided certain investor relations services to the Company. Black Oak's principal is an immediate family member of Mr. Bilodeau. As at July 2021, Mr. Bilodeau is no longer a related party of the Company. At as December 31, 2021, the Company no longer uses Black Oak.	$ 40,379	$ 95,333	$ -	$ 12,602
Aird & Berlis LLP	Aird & Berlis LLP, a law firm in which Sherri Altshuler, a former director of the Company, is a partner, provides legal services to the Company. As of November 2020, Ms. Altshuler is no longer a related party.	$ -	$ 660,942	$ -	$ 548,654
Fogler, Rubinoff LLP ("Fogler")	Fogler, a law firm in which Mr. Szweras is a partner, provides legal services to the Company. As of November 2020, Mr. Szweras is no longer a related party of the Company.	$ -	$ (6,390)	$ -	$ -
Sales to related parties:					
Sublime	Matthew Hawkins and Andrew Sturner, directors of the Company are partners at Entourage Effect Capital which is an investor in Sublime. As of July 2, 2021, Sublime was acquired by the Company (Note 3).	$ 566,472	$ 643,837	$ -	$ (39,914)
Nutritional High International Inc.	Adam Szweras, a former director of the Company, serves as the Chairman of the Board of the Directors of Nutritional High International Inc. As of November 2020, Mr. Szweras is no longer a related party of the Company.	$ -	$ 276,316	$ -	$ 169,350

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

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

(c) Other Related Parties

On February 26, 2020, the Board granted consent to FMI Capital Advisory Inc. ("FMICAI") to transfer 510,200 SVS shares in the capital of Harborside to certain 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 management services 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, 2021, a total of $44,245 was payable to Newhouse, of which $9,525 was related to the June 1, 2020 agreement and $34,720 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 bore interest at a rate of 4.0% per annum. Principal and accrued interest were due at maturity on March 31, 2021. On March 12, 2021, the Company extended the maturity date to June 30, 2021 and on May 25, 2021, the note, plus all accrued interest was repaid in full. The balance outstanding as at December 31, 2020 was $101,337.

On July 19, 2021, the Company entered into two consulting agreements with Entourage in exchange for cash compensation. The first was for Matthew Hawkins to provide management services as Interim CEO, and the second was for Entourage to provide business and executive management services related to retail, wholesale and manufacturing operations. As at December 31, 2021, a total of $41,661 was payable to Entourage, of which $31,984 was related to the agreement described in section (a) above.

Related Party Participation in the Offering

Certain directors, officers and insiders participated in the Offering (Note 22) as follows: (i) Peter Bilodeau, former Interim CEO of the Company, subscribed for 58,800 SVS Units at a price of C$2.55 per unit for a total of $116,696 (C$149,940); (ii) Tom DiGiovanni, CFO of the Company, subscribed for 307 MVS Units at a price of C$255 per unit for a total of $61,070 (C$78,285); (iii) Peter Kampian, a director of the Company, subscribed for 39,200 SVS Units at a price of C$2.55 per unit for a total of $77,979 (C$99,960); (iv) Andrew Sturner, a director of the Company, participated in the offering through Orange Island Ventures, LLC, which subscribed for 1,251 MVS Units at a price of C$255 per MVS Unit for a total of $248,857 (C$319,005); (v) James Scott, a director of the Company, participated in the Offering through Littlehorn Investments LLC, which subscribed for 1,600 MVS Units at a price of C$255 per unit for a total of $318,283 (C$408,000) and an immediate family member of Mr. Scott subscribed for 250 MVS Units at a price of C$255 per unit for a total of $49,731 (C$63,750); (vi) the principal of Black Oak, an immediate family member of Mr. Bilodeau, subscribed for 19,600 SVS Units at C$2.55 per unit for a total of $38,990 (C$49,980), and (vii) Cresco Capital Partners II, LLC, an entity doing business as Entourage, which is controlled and directed by Matt Hawkins and Andrew Sturner, directors of the Company, subscribed for 35,500 MVS Units at a price of C$255 per MVS Unit for a total of $7,061,893 (C$9,052,500). Both Mr. Hawkins and Mr. Sturner are partners of Entourage.

On March 31, 2022, the Company enacted the Mandatory Conversion of all the MVS into SVS at a ratio of 100 SVS for each MVS outstanding (Note 32).

28. Commitments and Contingencies

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.

28. Commitments and Contingencies (continued)

IRC §280E

Many of the central issues relating to the interpretation of IRC §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 IRC §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 its 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, 2021 and 2020, the reserve totaled $36,051,249 and $37,758,875, respectively.

On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to SJW to disallow all of SJW's deductions pursuant to IRC §280E for all the years at issue. On May 14, 2021, the Company appealed the Tax Court ruling. In an effort to resolve the matter as part of a global settlement, the Company withdrew its appeal.

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.

The claims were resolved and settled in June, 2021, with no admission of wrongdoing on the part of the Company. Pursuant to the settlement agreement, the Company made a one-time payment, net of insurance coverage, of approximately $1,535,000 to settle all aspects of the litigation.

Separation Agreement

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, upon execution of a separation and release agreement with the Company, 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 are due over a period of 24 months.

28. Commitments and Contingencies (continued)

San Leandro Wellness Solutions Inc. ("SLWS")

On August 21, 2020, the Company's subsidiary, SLWS, 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 Defendants. On September 8, 2020, Defendants filed their 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 their counterclaims against the Company. Arbitration of the matter was scheduled for March 29, 2021, with the parties each undertaking discovery prior to arbitration. On March 30, 2021, the court ruled against SLWS and entered a judgment in favor of Defendants. On April 1, 2021, the Company filed a request for temporary stay of eviction. The request for a stay was granted and the parties mutually agreed to stay the eviction until May 15, 2021. On April 26, 2021, the Company entered into a settlement agreement with Defendants which included extending the lease until October 31, 2021 and authorizing adult retail sales on the premises for the duration of the lease. The Company has negotiated an additional six-month extension with an optional three months available if mutually agreed by the parties to the lease.

Trademark Agreement Lawsuit

On September 18, 2018, Sublime entered into a trademark assignment agreement with Sublime Concentrates, Inc. (the “Counterparty”) for use of certain trademarks. In November 2018, Sublime purchased the trademarks from the Counterparty for $10,000. Although the trademarks were transferred to Sublime, the purchase price of $10,000 was not paid. In September 2020, the Counterparty filed suit against Sublime alleging breach of contract regarding the nonpayment for the transfer of the trademark assets. No trial date has been set as both parties continue to engage in settlement negotiations.

The Company has evaluated the foregoing matters to assess the likelihood of any unfavorable outcome and to estimate, if possible, the amount of potential loss as it relates to the litigation. Management believes a loss is probable and can be reasonably estimated. As such, the Company has recorded a provision of $250,000. This estimate may be revised in the future as the Company continues to evaluate and monitor a range of possible outcomes.

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 the 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.

28. Commitments and Contingencies (continued)

Gia Calhoun v. FLRish, Inc. (continued)

At the case management conference on July 17, 2020 the Court ruled:

1. No class-related discovery is permitted;
2. Within the next 90 days, the Company may take discovery on plaintiff's DNC claim;
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 parties participated in another case management conference on May 7, 2021. At the May 7, 2021 case management conference, the Court lifted the stay on class-related discovery that the Court had previously imposed on July 17, 2020. By mutual agreement of the parties, the Court imposed a stay of the case for 90 days and set a case management conference for December 17, 2021. On August 17, 2021, Ms. Calhoun filed a motion for leave to file an amended complaint, adding a claim on behalf of a class of persons who requested to opt-out of receiving text messages and expanding the time period for other claims. On August 18, 2021, the Company filed a motion for partial summary judgment on the claim that an ATDS was used. On January 19, 2022, mediation took place. The parties did not reach a settlement agreement and agreed to continue discovery.

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. At the May 4, 2021 mediation, the parties did not reach a settlement agreement, however, the parties agreed to continue discovery. A deposition had been scheduled for February 28, 2022 which was postponed. The parties continue to engage in pre-trial discovery. A trial date remains to be set.

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

28. Commitments and Contingencies (continued)

John Doe v. FLRish

On December 13, 2021, the Company received a Summons and Complaint filed in the Alameda Superior Court by a John Doe Plaintiff. The Complaint asserts three clauses of action, all on behalf of Plaintiff and a purported class defined as "[a]ll persons who, on or after four years prior to the filing of the initial complaint in this action through the date of class certification, purchased medicinal-cannabis from Defendants."

Plaintiff's First Cause of Action is a claim for violation of the California Confidentiality of Medical Information Act, Cal. Civ. Code §§ 56 I. (the "CMIA"). Plaintiff's Second Cause of Action is a claim under California's Unfair Competition Law, Cal. Bus. & Prof. Code §§ *et seq*. (the "UCL"). Specifically, among other things, Plaintiff contends that Defendants' alleged unlawful disclosure of its customers' PHI in violation of its customers' right to privacy under the common law, the California Constitution, and various statutes, including the CMIA, constitutes a violation of the UCL. Plaintiff's Third Cause of Action is a claim for "Invasion of Privacy," under the UCL and privacy rights under the common law, the California Constitution, the California Consumer Privacy Act of 2018, and the CMIA.

On March 16, 2022, the Company filed a demurrer asserting that the plaintiff's complaint fails to state a viable cause of action or state any claim upon which relief can be granted and should be dismissed. The Company further believes that it has meritorious defenses to the alleged causes of action.

Alex Fang v. Sublime

On August 27, 2021, the Company was served with a Demand for Arbitration by Mr. Alex Fang, a former employee and founder of Sublime. The Company filed a demurrer in this matter; the demurrer being heard by the Court on November 3, 2021. The Court tentatively overruled the Company's demurrer and gave the Company until November 30, 2021 to file an answer to the ruling. The Company filed its counterclaim alleging breach of fiduciary duty and fraudulent misrepresentation. Arbitration has been scheduled for October 31, 2022 through November 8, 2022. The Company believes that is has meritorious defenses to the alleged causes of action and it is the intent of the Company to prevail or settle the matter.

Tony Banks v. Sublime

On October 22, 2021, the Company received a Complaint filed in the Alameda Superior Court demanding civil penalties related to alleged violations of California labor code §2698. The complaint alleges wage and hour violations on behalf of the Plaintiff and all aggrieved employees pursuant to the Labor Code Private Attorneys General Act. The parties have agreed to submit the case to mediation and are in the process of securing a mediator. Mediation has been set for October 11, 2022. It is the intent of the Company to prevail or settle the matter at mediation.

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.

(Expressed in United States Dollars, except share amounts)

29. Capital Management

The Company's objectives when managing its capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern, meet capital expenditures required for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt or acquire or dispose of assets. With the exception of certain restrictive covenants included in the Facility and the Roll Up Financing (Note 16 and 32), the Company is not subject to externally imposed capital requirements. The Board does not establish quantitative criteria related to a return on capital for management, but rather relies on the management team's expertise to sustain future development of the business.

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

(i) minimizing discretionary disbursements;

(ii) reducing operating expenditures throughout the Company; and

(iii) exploring 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, 2021 and 2020.

30. 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.

(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, 2021, the Company had a cash and restricted cash balance of $9,091,405 (December 31, 2020 - $10,458,545) to settle current liabilities of $70,614,682 (December 31, 2020 - $63,466,254). The higher current liabilities as at December 31, 2021 and 2020 is primarily due to the Company's provision for an uncertain tax position (Note 19).

In addition to the commitments outlined in Note 12, *Right-of-use Assets and Lease Liabilities*, and Note 28, *Commitments and Contingencies*, the Company has the following contractual obligations as at December 31, 2021:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	> 5 Years	Total
Accounts payable and accrued liabilities	$ 23,692,814	$ -	$ -	$ -	$ 23,692,814
Revolving credit facility	-	11,845,678	-	-	11,845,678
	$ 23,692,814	$ 11,845,678	$ -	$ -	$ 35,538,492

30. Financial Risk Management (continued)

(a) Liquidity Risk (continued)

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, the expected timing of any payments related to the provision for uncertain tax position (Note 19) and the Company's cash position as at December 31, 2021.

(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, and investments and advances, which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash and restricted cash 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, restricted cash and accounts receivable is minimal.

(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 was exposed to interest rate volatility as its Facility had a variable interest rate (Note 15). Subsequent to the year ended December 31, 2021, the Facility was retired and replaced with the Roll Up Financing (Note 32).

(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 business is transacted in USD. The Company's primary exposure to foreign exchange risk and rate fluctuations relates to bank deposits held in Canada and transactions denominated in CAD.

(iii) Equity Price Risk

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

(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 is used in the course of conducting such business, or is derived from 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.

30. Financial Risk Management (continued)

(e) Banking Risk

Notwithstanding that a majority of states have legalized cannabis for either adult or medical use, and the passage of the SAFE Banking Act by the U.S. House of Representatives, 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 Controlled Substances Act, there is a valid argument that banks cannot accept funds for deposit from businesses involved with the cannabis industry.

Accordingly, 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, 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.

31. Segmented Information

The Company's operations comprise a single operating segment engaged in the cultivation, branding, manufacturing, wholesale distribution and retail sale of cannabis and cannabis products within the U.S. All revenues were generated in the United States for the years ended December 31, 2021 and 2020 and all property, plant and equipment and intangible assets are located in the United States.

32. Subsequent Events

The Company has evaluated subsequent events through April 27, 2022.

Roll Up Financing

On February 10, 2022, the Company closed the first tranche of its Roll Up Financing with Pelorus. Pelorus funded a total of $45.4 million pursuant to the first tranche of the Roll Up Financing, funded through three separate loans to the Company, Loudpack and Urbn Leaf. The Company received approximately $15.5 million, Loudpack received approximately $16.4 million, and Urbn Leaf received approximately $13.5 million of the aggregate amount funded under the first tranche. From its share of the proceeds of the Roll Up Financing, the Company repaid the $12.0 million which was previously outstanding under the Facility. The second tranche of the Roll Up Financing was disbursed to the Company on April 8, 2022, following the close of the Company's acquisitions of Loudpack and Urbn Leaf. The Roll Up Financing contains a nominal interest rate of 10.25% and is secured by certain real estate assets, cannabis licenses of the Company, Urbn Leaf and Loudpack, and other assets. The Roll Up Financing is subject to debt service ratio requirements, interest reserves, certain cross-corporate guarantees and defaults, subordination agreements and intercreditor agreements, along with a general corporate guaranty from the Company.

Repayment and termination of the Facility

In conjunction with receiving the funds from the first tranche of the Roll Up Financing, the Company repaid and terminated the Facility on February 10, 2022.

32. Subsequent Events (continued)

Subsequent FGW Agreement

On February 15, 2022, the Company announced it had entered into the Subsequent FGW Agreement, whereby a further 29.9% interest in FGW would be acquired, subject to certain material closing conditions, including approvals from regulatory authorities. The acquisition of the Subsequent Shares will increase the Company's interest in FGW to 80%. The Company also retains the right of first refusal to purchase, in its discretion, in whole or in part and in one or more closings, the remaining 20% of FGW, subject to regulatory approvals. Pursuant to the Subsequent FGW Agreement, the Company will pay an aggregate purchase price of $1,300,650 for the Subsequent Shares. The purchase price of the Subsequent Shares 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 multiplied by 100; (ii) C$150 per MVS; or (iii) such other price as may be approved by the CSE. Prior to the closing of the acquisition of the Subsequent Shares, the Subsequent FGW Agreement will be amended to reflect the occurrence of the Mandatory Conversion and the Consolidation, as applicable, and in particular the issuance of SVS instead of MVS as consideration for the Subsequent Shares. All MVS are subject to the Mandatory Conversion (see below).

Urbn Leaf Acquisition

On March 1, 2022, pursuant to the terms of the definitive agreement announced on November 29, 2021, the Company completed the acquisition Urbn Leaf (the "Urbn Leaf Acquisition"). Pursuant to the terms of the Urbn Leaf Acquisition, Harborside acquired 100% of the equity interests of Urbn Leaf through the issuance of 60,000,000 SVS, and the restructuring and assumption of debt.

During the year ended December 31, 2021, the Company entered into a $1,000,000 unsecured promissory note with Urbn Leaf. The principal plus accrued interest was converted as part of consideration in the Urbn Leaf Acquisition.

In connection with the Urbn Leaf Acquisition, the Company announced the resignation of Matthew Hawkins as interim Chief Executive Officer and the appointment of Ed Schmults as Chief Executive Officer of the Company. Mr. Schmults also joined the Board, filling a vacancy created by the resignation of Alexander Norman.

The financial effects of this transaction have not been recognized at December 31, 2021. The operating results and assets and liabilities of the acquired company will be consolidated from March 1, 2022.

(i) Acquisition-related costs

Acquisition-related costs of approximately $1,200,000 will be included in professional fees in the unaudited condensed interim consolidated financial statements in the reporting period ending March 31, 2022.

(ii) Information not disclosed as not yet available

At the time the consolidated financial statements were authorized for issuance, the Company had not yet completed the purchase accounting for the Urbn Leaf acquisition. In particular, the fair values of assets and liabilities have not been determined provisionally as the independent valuations have not been finalized. It is also not yet possible to provide detailed information about each class of acquired receivables and any contingent liabilities of the acquired entity.

LUX Settlement Agreement

On March 25, 2022, the Company entered into a settlement agreement with LUX which calls for certain cash payments to be made to the Company in exchange for the release of any claims by the Company.

32. Subsequent Events (continued)

Mandatory Conversion of MVS to SVS

On March 31, 2022, the Company completed the mandatory conversion of all of its issued and outstanding MVS to SVS (the "Mandatory Conversion"). The Mandatory Conversion has resulted in each holder of MVS being entitled to 100 SVS for each MVS it holds. In addition, all MVS Warrants previously exercisable into MVS, are now exercisable into SVS. In particular, each holder of MVS Warrants is now entitled to receive, upon exercise of the MVS Warrants, one hundred (100) SVS per MVS Warrant at an exercise price of C$369 per MVS Warrant (not taking into account the Consolidation).

Loudpack Acquisition

On April 4, 2022, pursuant to the terms of the definitive agreement announced on November 29, 2021, the Company completed the acquisition of Loudpack (the "Loudpack Acquisition"). Pursuant to the terms of the Loudpack Acquisition, Harborside acquired 100% of the equity interests of Loudpack through the issuance of 90,752,140 SVS, 2,000,000 warrants, the restructuring and assumption of approximately $50 million of debt and cash consideration of approximately $5 million. The warrants issued are exercisable to purchase SVS at a price of $2.50 per SVS, anytime within five years of the closing date. Harborside has the option to accelerate the expiration date of the warrants in the event that the volume weighted average trading price of the SVS is equal to or greater than $5.00.

In connection with the Loudpack Acquisition, the Company announced the appointment of Marc Ravner as President of Integration of the Company.

The financial effects of this transaction have not been recognized at December 31, 2021. The operating results and assets and liabilities of the acquired company will be consolidated from April 4, 2022.

(i) Acquisition-related costs

Acquisition-related costs of approximately $275,000 will be included in professional fees in the unaudited condensed interim consolidated financial statements in the reporting period ending June 30, 2022. A portion of the professional fees will be settled with shares (see "Shares for debt" below).

(ii) Information not disclosed as not yet available

At the time the consolidated financial statements were authorized for issuance, the Company had not yet completed the purchase accounting for the Loudpack acquisition. In particular, the fair values of assets and liabilities have not been determined provisionally as the independent valuations have not been finalized. It is also not yet possible to provide detailed information about each class of acquired receivables and any contingent liabilities of the acquired entity.

32. Subsequent Events (continued)

Name Change to StateHouse Holdings Inc. and Share Consolidation

On April 4, 2022, the Company announced that it plans to file articles of amendment to officially be renamed StateHouse Holdings Inc. (the "Name Change") and to effect the consolidation (the "Consolidation") of all of its issued and outstanding SVS. Pursuant to the Consolidation, shareholders are expected to receive one post-Consolidation SVS for every six pre-Consolidation SVS, subject to the Company continuing to meet minimum listing requirements of the CSE. The Company has decided to postpone until further notice the implementation of the Name Change and the Consolidation, and the Name Change and the Consolidation will no longer be completed on or about April 28, 2022.

Changes to the Board of Directors and Appointment of New Officers

On April 4, 2022, Kevin Albert, Andrew Sturner and Peter Kampian departed from the Board to create vacancies for the new members (the "Resignations"). On the same day, the Company announced that Marc Ravner, Tiffany Liff and Jonathon Roy Pottle had joined the Board, effective immediately, as approved by the shareholders of the Company on February 22, 2022. Mr. Sturner has transitioned into the role of a Board observer, alongside Roger Jenkins and Will Senn, who will retain their existing roles as Board observers.

In addition to Mr. Ravner's appointment as President of Integration of the Company (see above), the Company also announced that Robert Bacchi had been appointed Chief Technology Officer of the Company.

Grant of Incentive Options and RSUs to the Board and Management

On April 4, 2022, the Company announced that, pursuant to the appointments of Ed Schmults as Chief Executive Officer of the Company, and Will Senn as Chief Corporate Development Officer of the Company, as announced on March 1, 2022, following the Urbn Leaf Acquisition, the Company granted to Mr. Schmults and Mr. Senn: (i) options to purchase an aggregate of 5,758,797 SVS; and (ii) restricted share units representing the right to receive up to an aggregate of 912,599 SVS, subject to the satisfaction of certain vesting conditions. Each such option is exercisable into one SVS at an exercise price of C$0.70 per SVS for a period of five years following the date of grant.

Following completion of the Loudpack Acquisition, the Company granted (i) options to purchase an aggregate of 10,001,203 SVS; and (ii) RSUs representing the right to receive up to an aggregate of 787,401 SVS, subject to the satisfaction of certain vesting conditions, to certain employees of the Company. In addition, the Company granted RSUs representing the right to receive up to an aggregate of 1,950,000 SVS, subject to the satisfaction of certain vesting conditions, to members of its newly reconstituted Board.

The Company also granted options to purchase up to 50,000 SVS to each of Mr. Albert, Mr. Sturner and Mr. Kampian, for certain advisory and consulting services to be provided to the Company following the Resignations, and options to purchase up to 50,000 SVS to Mr. James Scott, in connection with his role as Chair of the special committee of the Company.

Each option granted is exercisable into one SVS at an exercise price of C$0.75 per SVS for a period of five years following the date of grant. All options and RSUs were granted in accordance with the Company's equity incentive plan adopted by the Board on January 17, 2022, and approved by shareholders on February 22, 2022.

Shares for Debt

On April 4, 2022, the Company agreed to issue an aggregate of 1,443,493 SVS at a deemed issuance price of approximately C$0.72 per SVS to settle C$1,034,647 owing to certain advisors of the Company (the "Indebtedness") for certain advisory services provided to the Company in connection with the Urbn Leaf Acquisition and the Loudpack Acquisition. The Company chose to satisfy the Indebtedness with SVS in order to preserve its cash for development of its business.