HARBORSIDE INC.
Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2021 and 2020
(Expressed in United States Dollars)

HARBORSIDE INC.
TABLE OF CONTENTS

Management's Responsibility for Financial Reporting

To the Shareholders of Harborside Inc.:

The accompanying unaudited condensed interim 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 unaudited condensed interim consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's unaudited condensed interim 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.

The unaudited condensed interim consolidated financial statements were approved by the Board of Directors of the Company and were signed on behalf of Management by:

"Matt Hawkins" (signed)	*"Tom DiGiovanni" (signed)*
Interim Chief Executive Officer	*Chief Financial Officer*

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Financial Position
As At September 30, 2021 and December 31, 2020
(Expressed in United States Dollars, except share amounts)

	Note	September 30, 2021	December 31, 2020
ASSETS			
Current Assets			
Cash		$ 13,956,021	$ 10,458,545
Restricted cash	15	316,385	-
Accounts receivable, net	4	4,308,526	1,932,002
Inventories	5	9,201,340	3,785,849
Biological assets	6	1,446,501	1,321,069
Prepaid expenses	7	3,777,469	1,759,013
Note receivable - related party	26	-	101,337
Note receivable		1,027,585	-
Other current assets	8	713,638	450,069
Total current assets		34,747,465	19,807,884
Investments and advances	9	4,410,845	250,000
Property, plant and equipment, net	10	23,794,458	17,909,607
Right-of-use assets	12	4,610,965	4,707,834
Deposits and other assets		446,179	20,053
Intangible assets	11	81,988,728	57,907,891
Goodwill	11	38,448,847	14,366,055
TOTAL ASSETS		$ 188,447,487	$ 114,969,324
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	13	$ 22,031,589	$ 17,198,715
Due to related parties		-	144,000
Convertible notes payable - current	16	-	473,908
Derivative liabilities - current	17	-	21,180
Lease payable - current	12	797,722	487,574
Income tax payable		13,396,555	7,382,002
Provisions	18	33,798,626	37,758,875
Total current liabilities		70,024,492	63,466,254
Note payable and accrued interest	14	-	10,726,421
Revolving credit facility, net	15	11,812,760	-
Derivative liabilities	17	3,457,554	-
Deferred tax liability	20	22,302,039	16,185,657
Lease payable	12	5,733,529	5,959,407
TOTAL LIABILITIES		113,330,374	96,337,739
Shareholders' Equity			
Share capital	21	150,361,792	97,423,381
Contributed surplus	22	10,276,835	9,305,199
Reserve for warrants	23	2,233,556	1,093,592
Accumulated deficit		(90,676,409)	(92,257,217)
Non-controlling interest	24	2,921,339	3,066,630
TOTAL SHAREHOLDERS' EQUITY		75,117,113	18,631,585
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 188,447,487	$ 114,969,324

Nature of operations (Note 1)
Commitments and contingencies (Note 27)
Subsequent events (Note 31)

Approved on behalf of the Board of Directors:

"Matt Hawkins" (signed) — Director

"Peter Kampian" (signed) — Director

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

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the Three and Nine Months Ended September 30, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

	Note	For the three months ended September 30, 2021	For the three months ended September 30, 2020	For the nine months ended September 30, 2021	For the nine months ended September 30, 2020
Retail revenue, net		$ 9,182,923	$ 10,681,897	$ 30,181,238	$ 31,803,511
Wholesale revenue, net		2,810,791	8,890,723	10,968,289	18,555,937
Manufacturing revenue, net		5,891,187	-	5,891,187	-
Gross revenue		17,884,901	19,572,620	47,040,714	50,359,448
Cultivation taxes		(439,294)	(1,166,993)	(1,800,065)	(3,001,051)
Net revenue		17,445,607	18,405,627	45,240,649	47,358,397
Cost of goods sold - retail		3,778,235	5,328,468	13,065,958	15,628,627
Cost of goods sold - wholesale		1,443,242	3,529,959	7,123,610	9,971,257
Cost of goods sold - manufacturing		3,793,431	-	3,793,431	-
Total cost of goods sold		9,014,908	8,858,427	23,982,999	25,599,884
Gross profit before biological asset adjustments		8,430,699	9,547,200	21,257,650	21,758,513
Changes in fair value less costs to sell of biological asset transformation	6	(753,741)	630,851	643,648	2,954,852
Realized fair value amounts included in inventory sold		(894,699)	(1,562,707)	(1,819,700)	(1,841,739)
Gross profit		6,782,259	8,615,344	20,081,598	22,871,626
Expenses					
General and administrative	19	6,486,851	4,144,233	16,194,028	12,745,326
Professional fees		2,262,809	2,639,754	6,648,454	6,590,015
Professional fees - M&A and transactional expenses		1,178,351	-	3,230,633	-
Share-based compensation	22	327,623	558,869	510,772	490,811
Allowance for expected credit losses		264,628	205,652	341,670	205,652
Write-downs (recovery) of receivables and investments and advances	9	(116,000)	-	(116,000)	250,280
Depreciation and amortization	10, 11 & 12	709,419	281,078	1,123,085	849,655
Total expenses		11,113,681	7,829,586	27,932,642	21,131,739
Operating income (loss)		(4,331,422)	785,758	(7,851,044)	1,739,887
Interest income (expense), net		(722,290)	(1,399,243)	(2,540,981)	(3,577,706)
Other income		928,581	102,343	297,022	253,033
Provisions	18	5,295,602	-	5,295,602	-
Fair value gain in other current assets, derivative liabilities and preferred shares	8, 9 & 10	3,513,557	12,168	10,500,674	15,227
Gain on debt extinguishment	14	-	-	128,417	-
Foreign exchange gain (loss)		(185,616)	(73,825)	160,921	(321,165)
Total other income (expense)		8,829,834	(1,358,557)	13,841,655	(3,630,611)
Net income (loss) before income taxes		4,498,412	(572,799)	5,990,611	(1,890,724)
Income tax expense	20	(1,821,395)	(1,841,188)	(4,555,094)	(4,658,142)
Net income (loss)		2,677,017	(2,413,987)	1,435,517	(6,548,866)
Less income (loss) attributable to noncontrolling interest		(56,585)	-	(145,291)	-
Net income (loss) attributable to Harborside Inc.		$ 2,733,602	$ (2,413,987)	$ 1,580,808	$ (6,548,866)

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

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the Three and Nine Months Ended September 30, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

	Note	For the three months ended		For the nine months ended	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Weighted average number of shares outstanding					
Basic	25	80,483,154	42,808,144	54,182,492	42,335,501
Diluted	25	81,402,008	42,808,144	55,731,346	42,335,501
Net loss per share					
Basic	25	$ 0.03	$ (0.06)	$ 0.03	$ (0.15)
Diluted	25	$ 0.03	$ (0.06)	$ 0.03	$ (0.15)
Comprehensive income (loss):					
Net income (loss)		$ 2,677,017	$ (2,413,987)	$ 1,435,517	$ (6,548,866)
Comprehensive income (loss) attributable to noncontrolling interest		(56,585)	-	(145,291)	-
Comprehensive income (loss) attributable to Harborside Inc. shareholders		$ 2,733,602	$ (2,413,987)	$ 1,580,808	$ (6,548,866)

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

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statement of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 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
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	22	10,195	-	-	-	10,195	-	10,195
Share-based compensation	22	-	490,811	-	-	490,811	-	490,811
Issuance of restricted share awards	21	1,815,600	(1,815,600)	-	-	-	-	-
Expiry of options issued on reverse takeover	22	-	94,185	(94,185)	-	-	-	-
Net loss for the period		-	-	-	(6,548,866)	(6,548,866)	-	(6,548,866)
Balance, September 30, 2020		**$ 96,115,704**	**$ 8,737,339**	**$ 1,093,592**	**$ (86,859,393)**	**$ 19,087,242**	**$ -**	**$ 19,087,242**
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	22	196,356	-	-	-	196,356	-	196,356
Share-based compensation	22	-	510,772	-	-	510,772	-	510,772
Issuance of SVS and MVS in private offering	21	13,115,086	-	-	-	13,115,086	-	13,115,086
Private offering issuance costs	21	(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	23	-	-	1,134,112	-	1,134,112	-	1,134,112
Issuance of shares in acquisitions	3 & 21	40,821,359	-	-	-	40,821,359	-	40,821,359
Expiry of broker warrants	23	-	460,864	(460,864)	-	-	-	-
Net income (loss) for the period	24	-	-	-	1,580,808	1,580,808	(145,291)	1,435,517
Balance, September 30, 2021		**$ 150,361,792**	**$ 10,276,835**	**$ 2,233,556**	**$ (90,676,409)**	**$ 72,195,774**	**$ 2,921,339**	**$ 75,117,113**

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

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

		For the Nine Months Ended	
	Note	September 30, 2021	September 30, 2020
Operating Activities			
Net income (loss) for the period		$ 1,435,517	$ (6,548,866)
Adjustments to reconcile net income (loss) to cash flow:			
Share-based compensation	22	510,772	490,811
Depreciation and amortization	10, 11 & 12	2,697,285	2,361,738
Changes in fair value less costs to sell of biological asset transformation	6	(643,648)	(2,954,852)
Fair value gain in other current assets, derivative liabilities and preferred shares	17	(10,500,674)	(15,227)
Gain on extinguishment of debt	14	(128,417)	-
Provision for expected credit losses	4	341,670	205,652
Interest income on notes receivable - related party, note receivable and investments and advances	9 & 26	(452,211)	(67,891)
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		196,900	-
Accrued interest on lease liabilities	12	667,029	873,952
Loss on disposal of property, plant and equipment		10,059	29,468
Write-down of receivables, investments and advances	9	-	250,280
Foreign exchange gain (loss)		(160,921)	321,165
		(5,430,685)	(5,053,770)
Changes in non-cash working capital:			
Accounts receivable, net	4	256,220	(388,704)
Inventories	5	(1,939,393)	(945,514)
Biological assets	6	518,216	3,495,405
Prepaid expenses	7	(1,281,743)	(1,172,697)
Other current assets		-	(201,333)
Deposits and other assets		(51,598)	-
Accounts payable and accrued liabilities	13	(3,172,134)	2,150,026
Due to related parties		(144,000)	-
Accrued interest on note payable	14	(1,491,912)	399,574
Income tax payable	20	6,014,553	2,614,164
Provisions	18	(3,960,249)	1,686,611
Deferred tax liability	20	(329,059)	233,754
Cash Flows (used in) provided by Operating Activities		(11,011,784)	2,817,516
Financing Activities			
Net proceeds raised in private offering	21	26,990,719	-
Net proceeds from draw down on revolving credit facility	15	11,751,982	-
Repayment of notes payable	14 & 16	(9,710,000)	-
Payments of principal portion of lease liabilities	12	(1,112,632)	(885,183)
Proceeds from exercise of stock options	22	196,356	10,195
Cash Flows provided by (used in) Financing Activities		28,116,425	(874,988)
Investing Activities			
Investment in debentures	9	(5,000,000)	-
Repayment (advances) to related party	26	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	(3,407,722)	-
Purchases of property, plant and equipment	10	(2,876,712)	(385,468)
Cash Flows (used in) Investing Activities		(13,484,444)	(485,468)

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

HARBORSIDE INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2021 and 2020
(Expressed in United States Dollars, except share amounts)

		For the Nine Months Ended	
	Note	**September 30, 2021**	**September 30, 2020**
Increase in cash and restricted cash		3,620,197	1,457,060
Effects of foreign exchange on cash and restricted cash		193,664	(337,047)
Cash and restricted cash, beginning of period		10,458,545	12,164,927
Cash and restricted cash, end of period		$ 14,272,406	$ 13,284,940
Cash and restricted cash consisted of the following:			
Cash		13,956,021	13,284,940
Restricted cash - interest reserves	15	316,385	-
		$ 14,272,406	$ 13,284,940
Supplementary Information			
Cash paid during the period for:			
Interest		$ 632,682	$ 689,951
Income taxes		-	1,986,650
Non-Cash Investing and Financing Activities			
Issuance of warrants to Bank	15 & 23	$ 466,716	$ -
Issuance of Broker Warrants	21 & 23	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	22	-	1,815,600
Expiry of warrants issued on reverse takeover	23	-	94,185
Expiry of Broker warrants	23	460,865	-

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 September 30, 2021, the Company owns and operates 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 that has 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.

On July 2, 2021, the Company acquired 100% of the issued and outstanding shares of Sublimation Inc. ("Sublime"), a cannabis manufacturing 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).

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 2100 Embarcadero, Suite 202, Oakland, California 94606, United States.

2. Basis of Presentation

2.1 Statement of Compliance and Basis of Measurement

The Company's unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2021, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"), have been omitted or condensed. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020, and the related notes thereto, and have been prepared using the same accounting policies described therein.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Company's board of directors (the "Board").

2.2 Functional Currency

As determined by management, the functional currency of the Company and each of its subsidiaries is the United States ("U.S.") dollar. Unless otherwise indicated, these unaudited condensed interim 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. Basis of Presentation (continued)

2.3 Basis of Consolidation

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

Name	Jurisdiction	Purpose	Percentage Owned (%) September 30, 2021	Percentage Owned (%) December 31, 2020
Harborside Inc.	Ontario, Canada	Parent	100	100
FLRish Farms Cultivation 2, LLC	California, 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
LGC LOR DIS 2, LLC	Oregon, U.S.	Operating Company	100	100
FGW Haight Inc.	California, U.S.	Operating Company	21	21
LGC LOR DIS 1, LLC	Oregon, U.S.	Operating Company	100	100
Encinal Productions RE, LLC	California, U.S.	Operating Company	100	-
Savature Inc.	California, U.S.	Operating Company	100	100
Sublime Machining Inc.	California, U.S.	Operating Company	100	-
Accucanna RE, LLC	California, U.S.	Operating Company	100	-
Accucanna LLC	California, U.S.	Operating Company	100	-
FLRish, Inc.	California, U.S.	Management Company	100	100
FLRish Retail Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish Farms Management & Security Services, LLC	California, U.S.	Management Company	100	100
FFC1, LLC	California, U.S.	Holding Company	100	100
FLRish Farms Cultivation 7, LLC	California, U.S.	Holding Company	100	100
FLRish Flagship Enterprises, Inc.	California, U.S.	Holding Company	100	100
FLRish IP, LLC	California, U.S.	Holding Company	100	100
FLRish Retail, LLC	California, U.S.	Holding Company	100	100
FLRish Retail Affiliates, LLC	California, U.S.	Holding Company	100	100
FLRish Retail JV, 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 Holdings, LLC	Nevada, U.S.	Holding Company	-	100
LGC Real Estate (Colorado), LLC	Nevada, U.S.	Holding Company	-	100
LGC Operations, LLC	Nevada, U.S.	Holding Company	100	100
Lineage GCL Oregon Corporation	Oregon, U.S.	Holding Company	100	100
Lineage GCL California, LLC	California, U.S.	Holding Company	100	100
Unite Capital Corp.	Ontario, Canada	Holding Company	100	100
SaVaCa, LLC	California, U.S.	Holding Company	100	100
Sublimation Inc.	Delaware, U.S.	Holding Company	100	-
Oakland Machining Supply SLB LLC	California, U.S.	Holding Company	100	-
Accucanna Holdings Inc.	California, U.S.	Holding Company	100	-

2. Basis of Presentation (continued)

2.3 Basis of Consolidation (continued)

The financial statements as at September 30, 2021 and December 31, 2020 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in IFRS 10. Entities over which the Company has control are presented on a consolidated basis from the date control commences. Control, as defined by IFRS 10 for purposes of determining the consolidated basis of financial statement presentation exists when the Company is exposed to, or has right to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. All of the consolidated entities were under control, as defined in IFRS 10 for purposes of determining the consolidated basis of financial statement presentation, during the entirety of the periods for which their respective results of operations were included in the consolidated statements. The unaudited condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries that it controls after eliminating intercompany balances and transactions.

2.4 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 to put in place to limit social interactions and enforce social distancing measures. At the same time, the Company has also taken steps to alter its marketing methods, conserve cash and adjust its overall strategic direction to preserve the health of its business. 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 Summary of Significant Accounting Policies

The Company completed two business combinations during the three months ended September 30, 2021. The acquisition of Sublime (the "Sublime Acquisition") and the acquisition of Accucanna (the "Accucanna Acquisition") were accounted for in accordance with IFRS 3 (Note 3). Except as described below due to the business combination, the accounting policies applied in the preparation of the unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2020.

2.6 Inventories

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 that are on consignment. Certain white label manufacturing customers provide packaging, labels, and other raw materials at no cost to the Company to be used for 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 pays for the products when they are sold to the dispensaries.

2. Basis of Presentation (continued)

2.7 Revenue Recognition

Manufacturing revenue

The Company's manufacturing revenue from the acquired operations includes wholesale product sales to dispensary customers, white label manufactured products for other third party businesses who can put their own branding on the product, and revenue from the distribution of products for other cannabis companies. The Company's manufacturing revenue follows the five-step process in accordance with IFRS 15 - Revenue from Contracts with Customers, as described in the Company's audited consolidated financial statements for the year ended December 31, 2020, except for the distribution products described below.

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. Only products that have passed testing 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 prices of the products distributed.

2.8 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 Unaudited Condensed Interim 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.

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 September 30, 2021 and December 31, 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.

2. Basis of Presentation (continued)

2.8 Financial Instruments (continued)

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

The following table presents the Company's classification of financial assets and financial liabilities as at September 30, 2021:

Financial assets/ financial liability	Classification
Cash and restricted cash	Amortized cost
Accounts receivable, net	Amortized cost
Deposits and other assets	Amortized cost
Other current assets	FVTPL
Investments and advances	FVTPL
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. Basis of Presentation (continued)

2.8 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.

2.9 Critical Accounting Estimates and Judgments

The preparation of these unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of 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 unaudited condensed interim consolidated financial statements are described below.

Business combination

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

2. Basis of Presentation (continued)

2.9 Critical Accounting Estimates and Judgments (continued)

Business combination (continued)

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

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

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

Fair value of biological assets and inventories

Determination of the fair value of biological assets and 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. Basis of Presentation (continued)

2.9 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 net realizable value ("NRV"), such as cases where prices have decreased, or inventories have spoiled or otherwise been damaged. The Company estimates the NRV of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

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

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

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 cash generating unit ("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. Basis of Presentation (continued)

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

2. Basis of Presentation (continued)

2.9 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 September 30, 2021 and December 31, 2020 relates to a provision for uncertain tax positions under Internal Revenue Code ("IRC") Section 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 Section 280E remain unsettled, and there are critical accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowances as deductions under Section 280E). The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although the Company strongly disagrees with the positions taken by the Internal Revenue Service and the finding of the U.S. Tax Court, the Company has determined that a reserve for uncertain tax position should be recorded for all years subject to statutory review (Note 18). The amount recognized as a provision reflects management's best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

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 September 30, 2021. Management believes there is sufficient capital to meet the Company's business obligations for at least the next twelve months, after taking into account expected cash flows and the Company's cash position at period-end.

2. Basis of Presentation (continued)

2.9 Critical Accounting Estimates and Judgments (continued)

Going concern (continued)

As indicated in Note 18, 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 unaudited condensed interim consolidated financial statements were authorized to be issued. No payments related to any of the provision amounts are expected to be paid until 2022 or later. The Company believes it will have funds in the future to satisfy any such required cash outflows from its operating cash flow performance and other sources of financing. However, it is possible that the Company will need to obtain additional capital to meet these uncertain cash flow requirements and there is no assurance that such capital will be available or available on favorable terms.

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

These unaudited condensed interim consolidated financial statements do not reflect adjustments to the reported carrying values of assets and liabilities; reported revenues and expenses; or, classifications in unaudited condensed interim 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.

2.10 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 following is a brief summary of the 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. Basis of Presentation (continued)

2.10 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.

3. Business Combinations

The Company completed two business combinations during the three months ended September 30, 2021. The Sublime Acquisition and the Accucanna Acquisition were accounted for in accordance with IFRS 3.

(Expressed in United States Dollars, except share amounts)

3. Business Combinations (continued)

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	$ 3,378,146
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	$ 6,274,883

	Sublime Acquisition	Accucanna Acquisition
Purchase consideration paid	$ 44,668,937	$ 6,274,883
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)	21,600,000	2,900,000
Deferred tax asset (Note 20)	88,000	-
Accounts payable and accrued liabilities	(6,805,518)	(1,198,306)
Notes payable	(130,000)	-
Lease liability	(429,042)	-
Deferred tax liability (Note 20)	(6,533,441)	-
Total identifiable net assets acquired	21,277,992	5,583,036
Goodwill (Note 11)	23,390,945	691,847
Net Assets Acquired	$ 44,668,937	$ 6,274,883

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.

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.

3. Business Combinations (continued)

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 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 22). 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 Unaudited Condensed Interim 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 $8,100,000 for two cannabis licenses for manufacturing and distribution, $7,200,000 for a trademark, $3,200,000 for developed technology and $3,100,000 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 retail management service agreement with Accucanna to provide management 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, which was originally valued at $500,000.

The shares of Accucanna stock were to be issued at the Company's option only upon delivery of products equal to $500,000 wholesale value. As at April 2020, the Company had delivered products totaling $500,000, thereby completing the delivery targets stipulated in the Stock Purchase Agreement.

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, having exercised its option under the Stock Purchase Agreement. 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.

(Expressed in United States Dollars, except share amounts)

3. Business Combinations (continued)

The Accucanna Acquisition (continued)

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.

4. Accounts receivable, net

The Company's accounts receivable, net is comprised of the following as at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Trade receivables	$ 4,820,411	$ 1,599,624
Sales tax receivables	71,286	575,099
Total	4,891,697	2,174,723
Provision for credit loss	(583,171)	(242,721)
Total accounts receivable, net	$ 4,308,526	$ 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 September 30, 2021 and December 31, 2020, there were $131,398 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:

	September 30, 2021	December 31, 2020
Balance, beginning of period	$ 242,721	$ 37,672
Acquired provision for expected credit losses through acquisition	277,224	-
Current year additions to provision for expected credit losses	341,670	208,601
Amounts reversed	(278,444)	(3,552)
Balance, end of period	$ 583,171	$ 242,721

(Expressed in United States Dollars, except share amounts)

4. Accounts receivable, net (continued)

The Company's aging of accounts receivable was as follows as at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Current	$ 1,990,809	$ 874,628
1 - 30 days	1,381,931	162,980
31 - 60 days	637,258	230,202
61 - 90 days	426,822	163,988
Over 90 days	454,877	742,925
Total	$ 4,891,697	$ 2,174,723

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 September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Raw materials	$ 1,684,419	$ 643,839
Work-in-process	2,058,680	931,910
Finished goods	5,458,241	2,210,100
Total	$ 9,201,340	$ 3,785,849

During the three and nine months ended September 30, 2021, inventory expensed to cost of goods sold was $11,379,043 (2020 - $8,598,617) and $29,129,664 (2020 - $25,335,827), 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 three and nine months ended September 30, 2021, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of $457,969 and $1,189,074, respectively, which was recorded as a component of the cost of goods sold - wholesale. There was no impairment recorded during the three and nine months ended September 30, 2020.

6. Biological Assets

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

	September 30, 2021	December 31, 2020
Balance, beginning of period	$ 1,321,069	$ 1,167,125
Costs capitalized	7,127,367	9,702,306
Changes in fair value less costs to sell due to biological asset transformation	643,648	4,174,784
Transferred to inventory upon harvest	(7,645,583)	(13,723,146)
Balance, end of period	$ 1,446,501	$ 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 September 30, 2021 and December 31, 2020 include an allocation of depreciation of $310,718 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 September 30, 2021		As at December 31, 2020	
	Assumptions:	**Input**	**10% change**	**Input**	**10% change**
i	Weighted average of expected loss of plants until harvest [a]	11%	$ 17,278	14%	$ 20,918
ii	Expected yields (dry grams of cannabis per plant) [b]	59 grams	$ 144,908	56 grams	$ 132,308
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	56%	$ 144,908	55%	$ 132,308
iv	Estimated selling price (per gram) [c]	$2.27 per gram dried flower $0.33 per gram dried trim	$ 269,714	$2.52 per gram dried flower $0.36 per gram dried trim	$ 218,046
v	After harvest cost to complete and sell (per gram)	$0.99 per gram dried flower $0.20 per gram dried trim	$ 124,806	$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 September 30, 2021 and December 31, 2020, it was expected the Company's biological assets would yield 25 and 26 grams of dried flower per plant, respectively, and 34 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 September 30, 2021 and December 31, 2020, it is expected that the Company's biological assets will yield approximately 1,749,889 and 1,343,932 grams of dry cannabis flower, respectively, and 2,412,782 and 1,570,160 grams of dry trim, respectively, when harvested. The fair value adjustments on biological assets are presented separately on the Unaudited Condensed Interim 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

As at September 30, 2021 and December 31, 2020, prepaid expenses were comprised of the following:

	September 30, 2021	December 31, 2020
Excise taxes	$ 561,806	$ 273,447
Insurance and rent	410,835	471,530
Advances made to suppliers and consultants	2,012,779	248,369
Payroll and income taxes	76,514	281,540
Taxes and fees	11,915	6,923
Licenses and other	703,620	477,204
Total prepaid expenses	$ 3,777,469	$ 1,759,013

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 September 30, 2021, the prepayment had a remaining balance of $1,178,494 which is included as a component of advances made to suppliers and consultants.

8. Other current assets

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% (refer to Note 3 of the audited consolidated financial statements for the year ended December 31, 2020). Upon closing of the FGW Transaction, FGW issued the Company a convertible note, in the principal amount of $1,265,000 (the "FGW Note"). The conversion option embedded in the FGW Note was determined to have a fair value of $450,069 as at December 31, 2020, which was recorded as a component of other current assets.

(Expressed in United States Dollars, except share amounts)

8. Other current assets (continued)

As at September 30, 2021, the Company used the Monte Carlo Simulation option-pricing model ("Monte Carlo model") to estimate the fair value of the conversion option and determined the fair value of the conversion option to be $713,638. The change in fair value for the three and nine months ended September 30, 2021 of $533,958 and $263,569, respectively, is included as a component of fair value gain in other current assets, derivative liabilities and preferred shares in the accompanying Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss.

9. Investments and Advances

The changes in investments and advances were as follows for the nine months ended September 30, 2021:

		Advances	Investments FVTPL	Total
Balance as at December 31, 2019		$ 313,911	$ -	$ 313,911
Transfers from deposits		-	229,953	229,953
Additions		-	270,327	270,327
Interest accrued		67,562	-	67,562
Impairment recorded		(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)	-	423,288	423,288
Changes in fair value	(a) & (b)	-	(896,443)	(896,443)
Balance as at September 30, 2021		$ -	$ 4,410,845	$ 4,410,845

(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 a cannabis consumer products company 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 three and nine months ended September 30, 2021, the Company accrued interest income of $189,041 and $423,288, respectively, 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 September 30, 2021:

	September 30, 2021
Risk-free interest rate	0.23%
Share price - U.S. $	$ 0.82
Expected volatility	83%
Expected remaining life	1.25 years
Fair value	$ 4,410,845

(b) Accucanna, LLC

On September 2, 2021, the Company completed the Accucanna Acquisition (refer to Note 3) having 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 Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

(Expressed in United States Dollars, except share amounts)

10. Property, Plant and Equipment, net

As at September 30, 2021 and December 31, 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	108,970	2,681,182	16,636	66,929	2,876,712
Business acquisitions (Note 3)	310,000	2,290,000	326,178	517,524	278,129	1,124,688	4,846,519
Disposals and transfers	-	-	(45,804)	(10,500)	-	-	(56,304)
Reclass on completed phase of construction	-	1,684,336	641,997	(2,343,381)	17,048	-	-
As at September 30, 2021	$ 3,714,572	$ 15,045,824	$ 6,995,543	$ 1,680,531	$ 2,409,655	$ 1,596,719	$ 31,442,844
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	-	-	(16,245)	-	-	-	(16,245)
Depreciation expense	-	594,559	916,748	-	246,938	40,076	1,798,321
As at September 30, 2021	$ -	$ 2,541,528	$ 3,682,909	$ -	$ 1,229,296	$ 194,653	$ 7,648,386
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 September 30, 2021	$ 3,714,572	$ 12,504,296	$ 3,312,634	$ 1,680,531	$ 1,180,359	$ 1,402,066	$ 23,794,458

Depreciation expense of $655,195 and $1,798,321 was recorded for the three and nine months ended September 30, 2021, respectively. Depreciation expense of $600,315 and $1,857,871 was recorded for the three and nine months ended September 30, 2020.

Depreciation expense relating to property, plant and equipment, net for the three and nine months ended September 30, 2021 and 2020 was as follows:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Cost of goods sold - wholesale	$ 546,586	$ 492,843	$ 1,574,202	$ 1,512,083
Expenses	108,609	107,472	224,119	345,788
Total depreciation and amortization relating to property, plant and equipment, net	$ 655,195	$ 600,315	$ 1,798,321	$ 1,857,871

(Expressed in United States Dollars, except share amounts)

11. Intangible Assets and Goodwill

There were no indicators of impairment during the period ended. A reconciliation of the beginning and ending balances of intangible assets and goodwill for the nine months ended September 30, 2021 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	8,100,000	7,200,000	3,200,000	3,100,000	21,600,000	23,390,945
Accucanna acquisition	2,900,000	-	-	-	2,900,000	691,847
Balance as at September 30, 2021	$ 68,874,884	$ 7,246,666	$ 3,200,000	$ 3,100,000	$ 82,421,550	$ 38,448,847
Accumulated Amortization						
As at December 31, 2020	$ -	$ 13,659	$ -	$ -	$ 13,659	$ -
Amortization	-	124,725	156,559	137,879	419,163	-
As at September 30, 2021	$ -	$ 138,384	$ 156,559	$ 137,879	$ 432,822	$ -
Net book value						
As at December 31, 2020	57,874,884	33,007	-	-	57,907,891	14,366,055
As at September 30, 2021	$ 68,874,884	$ 7,108,282	$ 3,043,441	$ 2,962,121	$ 81,988,728	$ 38,448,847

Amortization expense of $414,293 and $419,163 was recorded for the three and nine months ended September 30, 2021, respectively.

12. Right-of-use Assets and Lease Liabilities

Right-of-use Assets

As at September 30, 2021 and December 31, 2020, the Company's right-of-use assets consisted of the following:

	Right-of-use Assets - Buildings
Cost	
Balance as at December 31, 2020	$ 5,718,370
Additions	112,122
Acquired leases	270,810
Balance as at September 30, 2021	$ 6,101,302
Accumulated amortization	
Balance as at December 31, 2020	$ 1,010,536
Amortization expense	479,801
Balance as at September 30, 2021	$ 1,490,337
Net book value	
As at December 31, 2020	4,707,834
As at September 30, 2021	$ 4,610,965

(Expressed in United States Dollars, except share amounts)

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

Lease Liabilities

The Company's lease liabilities consist of various property leases used for the sale of cannabis products. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The incremental borrowing rate for the additions during the nine months ended September 30, 2021 was 8.5%.

The following is a summary of the activity in the Company's lease liability for the nine months ended September 30, 2021:

Balance as at December 31, 2020	$ 6,446,981
Acquired leases	359,615
Lease payments	(1,035,642)
Lease modification	100,832
Interest expense	659,465
Ending lease liability as at September 30, 2021	6,531,251
Less: current portion	(797,722)
Non-current lease liability	$ 5,733,529

The Company recognized no material expenses related to short-term leases and leases of low-value assets for the nine months ended September 30, 2021.

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 September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Accounts payable	$ 10,365,084	$ 7,061,561
Accrued liabilities	9,788,332	8,102,545
Accrued payroll	1,878,173	2,034,609
Total accounts payable and accrued liabilities	$ 22,031,589	$ 17,198,715

14. Note Payable and Accrued Interest

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

(Expressed in United States Dollars, except share amounts)

14. Note Payable and Accrued Interest (continued)

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 September 30, 2021, there was no remaining balance due to CFP. As at December 31, 2020, the balance included $9,080,000 principal and accrued interest of $1,646,421.

During the nine months ended September 30, 2021, the Company recognized a gain from debt extinguishment of $128,417.

A reconciliation of the beginning and ending balance of the note payable and accrued interest for the nine months ended September 30, 2021 and the year ended December 31, 2020 was as follows:

	September 30, 2021	December 31, 2020
Balance, beginning of period	$ 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 period	$ -	$ 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.

The Facility matures on March 2023, has a variable interest rate based on the prime rate charged by the Bank plus a premium, with a floor rate of 5.75%, and is secured by a first-priority security interest on substantially all of the Company's assets. The Facility requires an interest reserve, which is recorded as restricted cash in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position. As at September 30, 2021, the interest reserve amounted to $316,385.

As consideration for the Facility, the Company has, among other things: (i) delivered a commercial security agreement, an assignment of deposit account, 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, which subject to certain conditions, are convertible into SVS at a conversion rate of 100 SVS for each MVS converted. Each warrant issued to the Bank entitles the Bank to one MVS of the Company at a price of C$369, at any time prior to March 19, 2023.

The Facility is subject to covenant clauses, whereby the Company is required to meet certain financial ratios. As at September 30, 2021, the Company was in compliance with these covenants.

(Expressed in United States Dollars, except share amounts)

15. Revolving Credit Facility (continued)

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 Unaudited Condensed Interim Consolidated Statements of Financial Position. The warrants are amortized on a straight-line basis over the two-year term of the Facility. As at September 30, 2021, the warrants had an amortized cost of $340,313.

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).

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 unaudited condensed interim consolidated financial statements over the two-year term.

As at September 30, 2021, the outstanding balance less unamortized deferred financing costs was $11,812,760. As at September 30, 2021, unamortized deferred financing costs amounted to $187,240.

16. 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 (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

(Expressed in United States Dollars, except share amounts)

16. Convertible Debentures (continued)

Secured Convertible Notes (continued)

(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 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 is 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 17). 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 Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

As at September 30, 2021 and December 31, 2020, changes to the Secured Convertible Notes was 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 September 30, 2021	$ -

17. 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 Warrant and MVS Warrant 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
Change in fair value of derivative liabilities	-	(16,842)	(4,338)	(11,228,367)	(11,249,547)
Effects of foreign exchange	-	-	-	153,849	153,849
Fair value of derivative liabilities on issuance	-	-	-	14,532,072	14,532,072
Balance as at September 30, 2021	$ -	$ -	$ -	$ 3,457,554	$ 3,457,554

(Expressed in United States Dollars, except share amounts)

17. Derivative Liabilities (continued)

(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 related party to the Company (Note 26), (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).

Each Subscription Receipt automatically converted into one share of FLRish Series D Common Stock (each, an "SR Share") and one FLRish warrant (each, a "Series D Warrant") immediately prior to and in connection with the completion of the RTO Transaction, without payment of any additional consideration and with no further action on the part of the holder. The Series D Warrants are governed by the terms of a warrant indenture dated May 17, 2019 among the Co-Lead Agents, FLRish, Lineage and Odyssey Trust Company, as warrant agent. Each Series D Warrant issued on conversion of the Subscription Receipts 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 September 30, 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)

17. Derivative Liabilities (continued)

(b) Secured Convertible Note Conversion Feature

As part of the RTO Transaction, the Company assumed the Secured Convertible Notes (Note 16). 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 were not outstanding as at September 30, 2021.

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 in 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.

(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.

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.

(Expressed in United States Dollars, except share amounts)

17. Derivative Liabilities (continued)

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

The following assumptions were used to value the SVS Warrants as at September 30, 2021 and February 18, 2021:

	September 30, 2021	February 18, 2021
Risk-free interest rate	0.58%	0.35%
Exercise price - CAD	C$3.69	C$3.69
Share price - CAD	C$1.05	C$2.65
Expected volatility	104.7%	111.40%
Expected remaining life	2.43 years	3 years
Fair value	$1,458,458	$6,128,298

The following assumptions were used to value the MVS Warrants as at September 30, 2021 and February 18, 2021:

	September 30, 2021	February 18, 2021
Risk-free interest rate	0.58%	0.35%
Exercise price - CAD	C$369	C$369
Expected volatility	104.7%	111.40%
Expected remaining life	2.43 years	3 years
Fair value	$1,999,096	$8,403,774

18. Provisions

IRC Section 280E

Certain subsidiaries of the Company operate in the cannabis industry and are subject to IRC Section 280E, which prohibits businesses engaged in the trafficking of controlled substances (including cannabis as specified in Schedule I of the Controlled Substances Act) from deducting ordinary and necessary business expenses. This can result in permanent tax differences resulting from normal business expenses which are deemed non-allowable under IRC Section 280E. Many of the central issues relating to the interpretation of Section 280E remain unsettled, and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E). IFRIC 23 - *Uncertainty over Income Tax Treatments* provides guidance that adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the positions taken by the Internal Revenue Service and the findings of the U.S. Tax Court, the Company has determined that a reserve for an uncertain tax position should be recorded for all years subject to statutory review.

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

18. Provisions (continued)

IRC Section 280E (continued)

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 September 30, 2021, the reserve totaled $33,798,626 (December 31, 2020 - $37,758,875), a sum which includes the separate tax proceedings described below. During September 2021, the Company reduced the provision for the estimate related to the 2017 tax year for PMACC and SJW and recognized a gain of $5,295,602.

PMACC

PMACC is currently involved in two separate tax proceedings. The first, *PMACC v. Commissioner*, is an appeal to the United States Court of Appeals for the Ninth Circuit of an adverse Tax Court decision that was issued on November 29, 2018. In that decision, the Tax Court disallowed PMACC's allocation of certain items of expense to cost of goods sold, holding that they were instead deductions barred by IRC Section 280E. At issue are PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012. The Tax Court held that the expenses were ordinary and substantiated business expenses but, because PMACC's business consists of trafficking in a Schedule I controlled substance, the expenses must be disallowed. On October 21, 2019, after a review process under Rule 155, the Tax Court determined that PMACC's total liability was $11,013,237 plus accrued interest. In its ruling, the Tax Court rejected the assertion of penalties by the Internal Revenue Service ("IRS"), finding that the unsettled state of the law and the fact that PMACC acted reasonably and in good faith, meant that penalties under IRC 6661(a) would be inappropriate. Accordingly, management has not included penalties in the estimated provision at 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 Section 280E, the IRS issued a notice of deficiency asserting that PMACC owed $16,035,218 in additional taxes and penalties for fiscal 2016, by disallowing all deductions. The Company filed its initial petition in this case to the Tax Court on February 13, 2020. As the Ninth Circuit ruled on the earlier PMACC tax case, this matter is expected to be put back on the calendar later this year.

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 the appeal.

(Expressed in United States Dollars, except share amounts)

19. General and Administrative Expenses

For the three and nine months ended September 30, 2021 and 2020, general and administrative expenses consisted of the following:

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Advertising and promotion	$ 670,936	$ 424,941	$ 1,163,896	$ 717,902
Bad debt expense	-	-	-	5,000
Banking and processing fees	295,563	198,113	830,480	556,534
Other general administrative	36,803	(8,763)	80,782	40,810
Office and general expenses	1,431,317	793,596	3,876,024	3,207,645
Salaries and benefits	3,155,152	2,604,665	9,032,615	7,859,963
Taxes and licenses	165,198	62,527	376,971	158,375
Travel and entertainment	137,900	69,154	239,277	199,097
Sales and marketing	593,982	-	593,982	-
Total	$ 6,486,851	$ 4,144,233	$ 16,194,027	$ 12,745,326

20. Income Taxes

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

The Company's income tax expense allocated for the three and nine months ended September 30, 2021 and 2020 was follows:

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Current tax	$ 2,142,725	$ 2,036,878	$ 4,884,153	$ 4,424,388
Deferred tax	(321,330)	(195,690)	(329,059)	233,754
Income tax expense	$ 1,821,395	$ 1,841,188	$ 4,555,094	$ 4,658,142

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 Section 280E as well as fair value adjustments for biological assets and derivative liabilities.

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Of the $22,302,039 net deferred tax liability as at September 30, 2021, approximately $21,900,000 relates to temporary differences associated with intangible assets recorded on the acquisitions of PMACC, SJW, Sublime and the RTO Transaction with Lineage.

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

(Expressed in United States Dollars, except share amounts)

20. Income Taxes (continued)

Movements in the net deferred tax liabilities during the nine months ended September 30, 2021 was as follows:

Balance, beginning of period	$ 16,185,657
Recognized in income	(329,059)
Net deferred tax liability from acquisitions (Note 3)	6,445,441
Balance, end of period	$ 22,302,039

21. Share Capital

The following is a reconciliation of the issued and outstanding shares as at September 30, 2021 and December 31, 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	1,335,877	-
Issuance on settlement of restricted share awards	-	1,600.00
Balance, September 30, 2021	39,447,260	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.

21. Share Capital (continued)

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 purchase warrants (each, an "MVS Warrant"), based on the same economic equivalency of each MVS converting into 100 SVS. The holders of Multiple Voting Shares are entitled to one vote in respect of each SVS into which such MVS could be converted. A total of 79,592 MVS Units were issued pursuant to the Offering.

The SVS Warrants and MVS Warrants were valued 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 17.

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 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 23.

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.

22. 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.

(Expressed in United States Dollars, except share amounts)

22. Contributed Surplus (continued)

The following table summarizes the stock option activities for the nine months ended September 30, 2021 and the year ended December 31, 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	(296,349)	0.05
Options granted	3,475,000	0.76
Balance, December 31, 2020	6,635,898	1.58
Options exercised	(1,335,877)	0.15
Options expired/forfeited/cancelled	(759,986)	2.76
Options granted	1,221,860	0.62
Balance, September 30, 2021	5,761,895	1.42

During the three and nine months ended September 30, 2021, the Company recorded aggregate share-based compensation of $327,623 and $510,772, respectively. During the three and nine months ended September 30, 2020, the Company recorded aggregate share-based compensation of $558,869 and $486,264, respectively, for all stock options vesting during these periods.

During the nine months ended September 30, 2021 and 2020, the Company received cash consideration of $196,356 and $10,195, respectively, for the exercise of 1,335,877 and 205,172 vested options, respectively.

During the three months ended September 30, 2020, the Company granted 536,875 new options under the Plan to 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.

(Expressed in United States Dollars, except share amounts)

22. Contributed Surplus (continued)

As at September 30, 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
August 1, 2016*	August 1, 2021	24,747	24,747	$ 0.050	-
September 30, 2020	September 30, 2021	300,000	300,000	$ 0.871	-
August 1, 2016	November 24, 2021	1,927	1,927	$ 0.050	0.15
July 26, 2017	November 24, 2021	20,000	20,000	$ 0.050	0.15
April 25, 2018	November 24, 2021	24,000	24,000	$ 4.150	0.15
May 24, 2018	November 24, 2021	4,783	4,783	$ 8.354	0.15
December 14, 2018	November 24, 2021	7,174	7,174	$ 5.567	0.15
September 1, 2020	November 24, 2021	435,000	435,000	$ 0.766	0.15
July 5, 2019	July 5, 2022	262,500	262,500	$ 0.050	0.76
May 24, 2018	May 24, 2023	14,946	14,946	$ 8.354	1.65
December 14, 2018	December 14, 2023	11,141	11,141	$ 5.516	2.21
September 1, 2020	September 1, 2025	1,475,000	1,090,835	$ 0.759	3.92
December 23, 2020	December 23, 2025	840,000	-	$ 1.463	4.23
June 11, 2021	June 11, 2026	684,985	-	$ 1.767	4.70
July 2, 2021	July 2, 2026	536,875	-	1.423	4.76
August 1, 2016	August 1, 2026	67,590	67,590	$ 0.050	4.84
July 26, 2017	July 26, 2027	104,185	104,185	$ 0.050	5.82
December 4, 2017	December 4, 2027	27,375	27,375	$ 4.150	6.18
April 25, 2018	April 25, 2028	791,667	791,667	$ 4.150	6.57
May 7, 2018	May 7, 2028	15,000	15,000	$ 4.150	6.63
May 15, 2018	May 15, 2028	43,000	43,000	$ 4.150	6.88
June 25, 2018	June 25, 2028	10,000	10,000	$ 4.150	6.74
September 12, 2018	September 12, 2028	50,000	50,000	$ 4.150	6.96
November 7, 2018	November 7, 2028	10,000	10,000	$ 5.310	7.11
Total		5,761,895	3,315,870		3.92

*On April 28, 2021, the Board adopted a resolution amending the expiry date of these options to August 1, 2021.

The weighted average remaining contractual life of outstanding options as at September 30, 2021 is 3.92 years.

Restricted Stock Awards

No RSAs were granted during the nine months ended September 30, 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 September 30, 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 nine months ended September 30, 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 nine months ended September 30, 2021.

(Expressed in United States Dollars, except share amounts)

23. Reserve for Warrants

The activity for warrants outstanding for the nine months ended September 30, 2021 and the year ended December 31, 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	6.67
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	2.90
Issuance of Broker Warrants	569,154	2.55	2.00
Balance, June 30, 2021	6,375,854	3.59	2.82

	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	290.00
Issuance of warrants to the Bank	4,100	369.00	290.00
Balance, June 30, 2021	83,692	369.00	290.00

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

See Note 21 in the Company's audited consolidated financial statements for the year ended December 31, 2020 for further information related to outstanding warrants.

Warrants

On February 18, 2021, the Company issued 5,806,700 SVS and 79,592 MVS Warrants in connection with the Offering (Note 21). 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.

The SVS and MVS Warrants are being accounted for as a derivative liability (Note 17).

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 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.

(Expressed in United States Dollars, except share amounts)

23. Reserve for Warrants (continued)

Broker Warrants

As detailed in Note 21, 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

The following table summarizes information of warrants outstanding as at September 30, 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	290.00	1.47
February 18, 2024	5,806,700	3.69	2.93	2.39
February 18, 2022	569,154	2.55	2.03	0.39
February 18, 2024	79,592	369.00	293.00	2.39
Total	6,459,546	4.02	3.60	2.21

To calculate the weighted average exercise price and weighted average remaining life all MVS warrants are multiplied by 100.

24. Non-controlling interests

As at September 30, 2021 and December 31, 2020, the Company held a 21% ownership interest in FGW. There were no changes in ownership interest for the nine months ended September 30, 2021.

The change in non-controlling interests was as follows:

Balance, December 31, 2020	$ 3,066,630
Share of loss for the period	(145,291)
Balance, September 30, 2021	$ 2,921,339

(Expressed in United States Dollars, except share amounts)

25. Net income (loss) per share

Basic earnings (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 earnings (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 three and nine months ended September 30, 2021 and 2020, the number of shares outstanding are retroactively adjusted to reflect the legal capital of the accounting acquiree. For purposes of calculating earnings (loss) per share, the dilutive effect of outstanding MVS is converted into 100 SVS on a weighted-average basis for the number of days the MVS' are outstanding.

The following is a reconciliation for the calculation of basic and diluted earnings (loss) per share for the three and nine months ended September 30, 2021 and 2020:

	For the three months ended		For the nine months ended	
	September 30, 2021	**September 30, 2020**	**September 30, 2021**	**September 30, 2020**
Net income (loss) attributable to Harborside Inc.	$ 2,733,602	$ (2,413,987)	$ 1,580,808	$ (6,548,866)
Weighted average number of shares outstanding	80,483,154	42,808,144	54,812,492	42,335,501
Dilutive effect of warrants outstanding	918,854	-	918,854	-
Diluted weighted average number of common shares outstanding	81,402,008	42,808,144	55,731,346	42,335,501
Basic earnings (loss) per share	$ 0.03	$ (0.06)	$ 0.03	$ (0.15)
Dilutive earnings (loss) per share	$ 0.03	$ (0.06)	$ 0.03	$ (0.15)

26. 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 three and nine months ended September 30, 2021 and 2020 was as follows:

	For the three months ended		For the nine months ended	
	September 30, 2021	**September 30, 2020**	**September 30, 2021**	**September 30, 2020**
Short-term employee benefits, including salaries and director fees	$ 362,013	$ 558,759	$ 1,025,738	$ 1,672,036
Executive bonus	-	-	246,250	-
Share-based compensation - Directors and Executives	164,399	364,182	446,813	292,721
Total	$ 526,412	$ 922,941	$ 1,718,801	$ 1,964,757

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

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

(a) Key Management Compensation (continued)

As at September 30, 2021, there were no amounts payable to Emtra Business Services, Inc., a company controlled by Peter Bilodeau, former Interim Chief Executive Officer ("CEO") of Harborside, through which Mr. Bilodeau was compensated for his services as the Interim CEO of the Company (December 31, 2020 - $26,250). Mr. Bilodeau resigned as Interim CEO of the Company on July 19, 2021.

On July 19, 2021, Matt Hawkins, Chairman of the Board, assumed the position of Interim CEO of Harborside. As at September 30, 2021, $7,875 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.

On July 19, 2021, Ahmer Iqbal was appointed Chief Operating Officer. As at September 30, 2021, there were no amounts payable to Mr. Iqbal.

As at September 30, 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 September 30, 2021, $27,927 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).

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

(Expressed in United States Dollars, except share amounts)

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

(b) Related Parties

		Transactions for the three months ended		Transactions for the nine months ended		Balance outstanding	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020	September 30, 2021	December 31, 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).	$ 96,863	$ 65,850	$ 292,084	$ 110,693	$ -	$ 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.	-	216,257	-	553,578	-	169,350
Flow Cannabis Co.	Kevin Albert, a director of the Company, serves as a director on the board of Flow Cannabis Co.	$ -	$ 20,823	$ 833	$ 87,104	$ 1,517	$ 6,705
Branson Corporate Services Ltd. ("Branson")	Branson provides finance, accounting and administrative services to the Company. Mr. Bilodeau holds a 16% ownership interest in Branson. As of July 2021, Mr. Bilodeau is no longer a related party of the Company.	$ -	$ 154,685	$ 86,648	$ 220,673	$ -	$ 15,975
Black Oak Ventures ("Black Oak")	Black Oak provides certain investor relations services to the Company. Black Oak's principal is an immediate family member of Mr. Bilodeau. As of July 2021, Mr. Bilodeau is no longer a related party of the Company.	$ -	$ 33,000	$ 36,000	$ 62,333	$ 6,780	$ 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.	$ -	$ 279,405	$ -	$ 476,534	$ -	$ 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.	$ -	$ (6,330)	$ -	$ (10,020)	$ -	$ -
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).	$ -	$ 400,802	$ 566,472	$ 484,025	$ -	$ (39,914)

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

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

(c) Other Related Parties

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 September 30, 2021, a total of $32,502 was payable to Newhouse, of which $4,575 was related to the June 1, 2020 agreement and $27,927 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. The maturity date could be extended by 90 days at the option of the Company. 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 to provide management services for Interim CEO and business and executive management services consistent with those of an Interim Chief Operations Officer in exchange for cash compensation. As at September 30, 2021, a total of $15,375 was payable to Entourage, of which $7,875 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 21) 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); (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.

27. Commitments and Contingencies

IRC Section 280E

Many of the central issues relating to the interpretation of IRC Section 280E remain unsettled and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E) that have never been addressed by any Treasury regulation or court case. IFRIC 23 - *Uncertainty over Income Tax Treatments* provides guidance that adds to the requirements in IAS 12, Income Taxes, by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the Internal Revenue Service and the U.S. Tax Court, determined that a reserve for an uncertain tax position should be recorded. As at September 30, 2021 and December 31, 2020, the reserve totaled $33,798,626 and $37,758,875, respectively.

27. Commitments and Contingencies (continued)

IRC Section 280E (continued)

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 Section 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 the 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 Agreements

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 will be eligible to receive severance payments in the form of salary and certain related benefits, plus payment by the Company of agreed upon expenses incurred by Mr. DeAngelo prior to Termination. Payments related to the Termination will become due over a period of 24 months from the date of execution of the separation agreement.

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 the Defendants. On September 8, 2020, the Defendants filed its response to SLWS's demand for arbitration, and also asserted a number of counterclaims against SLWS. Defendants also interposed an action for unlawful detainer in relation to its counterclaims against the Company. Arbitration of the matter was scheduled for March 29, 2021, with the parties each undertaking discovery prior to arbitration. On March 30, 2021, the court ruled against SLWS and entered a judgment. On April 1, 2021, the Company filed a request for temporary stay of eviction. The request for a stay was granted and the parties mutually agreed to stay the eviction until May 15, 2021. On April 26, 2021, the Company entered into a settlement agreement with the landlord 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.

27. Commitments and Contingencies (continued)

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 engagement in settlement negotiations.

Sublime has evaluated its claim and 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 disclosed above. Management believes a loss is probable and reasonably estimated based on an estimated range of possible outcomes. As such, the Company has recorded a provision of $250,000.

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. 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.

27. Commitments and Contingencies (continued)

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. As of the date of the unaudited condensed interim consolidated financial statements, no follow-up mediation date has been set. The parties continue to engage in pre-trial discovery. A trial date remains to be set.

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.

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. 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, the Company is not subject to externally imposed capital requirements. The Board does not establish quantitative return on capital criteria for management, but rather relies on the management team's expertise to sustain future development of the business.

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

(1) minimizing discretionary disbursements;

(ii) reducing operating expenditures throughout the Company; and

(iii) exploring alternative sources of liquidity.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no material changes to the Company's capital management approach during the nine months ended September 30, 2021 and 2020.

(Expressed in United States Dollars, except share amounts)

29. 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 September 30, 2021, the Company had a cash balance of $14,272,406 (December 31, 2020 - $10,458,545) to settle current liabilities of $70,024,492 (December 31, 2020 - $63,466,254). The higher current liabilities as at September 30, 2021 and December 31, 2020 is primarily due to the Company's provision for an uncertain tax position (Note 18).

In addition to the commitments outlined in Note 12, *Right-of-use Assets and Lease Liabilities*, and Note 27, *Commitments and Contingencies*, the Company has the following contractual obligations as at September 30, 2021:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	> 5 Years	Total
Accounts payable and accrued liabilities	$ 22,031,589	$ -	$ -	$ -	$ 22,031,589
Revolving credit facility	-	11,812,760	-	-	11,812,760
	$ 22,031,589	$ 11,812,760	$ -	$ -	$ 33,844,349

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

Management believes there is sufficient capital to meet short-term obligations, after taking into account the cash flow requirements from operations and the Company's cash position as at September 30, 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 cash equivalents are primarily held with reputable banks, and at secure facilities controlled by the Company. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents and accounts receivable is minimal.

(c) Market Risk

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate volatility as its Facility has a variable interest rate (Note 15).

29. Financial Risk Management (continued)

(c) Market Risk (continued)

(ii) Foreign Exchange Risk

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

(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 market.

(d) Asset Forfeiture Risk

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

(e) Banking Risk

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

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 directly relating to its business, additional banking restrictions could nevertheless be imposed that would result in existing deposit accounts being closed and/or the inability to make further bank deposits. The inability to open bank accounts would make it more difficult for the Company to operate and would substantially increase operating costs and risk.

30. Segmented Information

The Company's operations comprise a single operating segment engaged in the cultivation, branding, manufacturing, distribution and retail management of cannabis within the U.S. All revenues were generated in the United States for the three and nine months ended September 30, 2021 and 2020 and all property, plant and equipment and intangible assets are located in the United States.

31. Subsequent Events

The Company has evaluated subsequent events through November 29, 2021.

Business Combination with Urbn Leaf and Loudpack

On November 29, 2021, the Company entered into a definitive agreement to acquire 100% of UL Holdings Inc. ("Urbn Leaf") and LPF JV Corporation ("Loudpack"). The aggregate consideration for the transactions will be met through the issuance of 151,427,786 SVS and the assumption and restructuring of debts and other obligations as well as the issuance of 2,000,000 warrants, each warrant entitling the holder thereto to acquire one SVS at an exercise price of US$2.50 per SVS. The acquisitions are expected to close in the first quarter of 2022, subject to required regulatory approvals and customary closing conditions, representations, warranties and covenants. Upon completion of the acquisitions, subject to shareholder and regulatory approval, the Company is expected to be renamed StateHouse Holdings ("StateHouse") and to trade under a new symbol (CSE: STHZ). Upon closing of the Urbn Leaf acquisition, Ed Schmults, the current CEO of Urbn Leaf, is expected to be appointed as CEO of the Company and will be joining the Board. Upon closing of the Loudpack acquisition, Marc Ravner, the current CEO of Loudpack, is expected to be appointed as President of the Company and will be joining the Board.

Private Placement

On November 29, 2021, in connection with the proposed acquisitions of Urbn Leaf and Loudpack, the Company announced that it expects to complete a private placement offering of units of Harborside ("Units") at a price of C$0.79 per Unit for aggregate proceeds of up to approximately $10,000,000 (the "Private Placement"). Each Unit will be comprised of one SVS and one SVS purchase warrant, with each warrant entitling the holder thereof to acquire one SVS at an exercise price of C$0.79 per SVS for a period of 60 months from the closing of the Private Placement, subject to adjustment and acceleration in certain events. To the extent the acquisitions of Urbn Leaf and Loudpack are completed, the proceeds from the Private Placement will be used for growth capital of StateHouse. Otherwise, the proceeds of the Private Placement will be used for general corporate and working capital purposes of Harborside. The Private Placement remains subject to the approval of the CSE.

Roll Up Financing

On November 29, 2021, in connection 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 for a total of approximately $77,300,000 of debt financing (the "Roll Up Financing") which would be used primarily to retire certain existing loans and provide additional working capital to the Company, Urbn Leaf and Loudpack. The Roll Up Financing would contain a nominal interest rate of 10.25%, along with specified origination, closing and other transaction fees, and would be secured by certain real estate assets and cannabis licenses of the Company, Urbn Leaf and Loudpack. It would also be 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. The Roll Up Financing is intended to be funded in two tranches, with the first occurring prior to closing on the acquisitions of Urbn Leaf and Loudpack, and the second tranche to be funded to the Company post-closing, at a time of the Company's choosing. The first tranche is intended to be funded in three separate loans, with one loan each to Urbn Leaf, Loudpack and the Company. The Roll Up Financing also will contain terms so that, in the event that the first tranche is funded, and the Company does not close on the acquisitions of Urbn Leaf and/or Loudpack, the Company is no longer obligated to guarantee the specific portion of the first tranche that is related to the acquisition transaction that will not close. The Company intends to enter into a definitive agreement with Pelorus prior to the end of 2021.