THE
HARBORSIDE
GROUP

HARBORSIDE INC.

(FORMERLY LINEAGE GROW COMPANY LTD.)

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND OPERATING PERFORMANCE

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

AUGUST 29, 2019

The following Management's Discussion and Analysis ("MD&A") constitutes management's assessment of the factors that affected the financial and operating performance of Harborside Inc. (formerly Lineage Grow Company Ltd.) ("Harborside", "We" or the "Company") for the three and six months ended June 30, 2019.

This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators ("CSA"). This MD&A should be read in conjunction with the audited consolidated financial statements of FLRish Inc. ("FLRish") for the year ended December 31, 2018, and the audited consolidated financial statements of Lineage Grow Company Ltd. ("Lineage") for the year ended January 31, 2019. The Company's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019 (the "Q2 2019 Interim Financial Statements") and the financial information contained in this MD&A are prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting, based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. In preparing this MD&A, management has taken into account information available up to August 29, 2019, and all figures are expressed in United States Dollars ("$" or "USD") unless stated otherwise.

Cautionary Note Regarding Forward Looking Statements

This MD&A contains certain forward-looking information and statements relating, but not limited to, the Company's future financial position and results of operations, strategies, plans, objectives, goals, targets, and future developments in the markets where the Company participates or is seeking to participate. Forward-looking information typically contains statements with words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" or similar words suggesting future outcomes or statements regarding an outlook, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements of the Company to differ materially from those suggested by the forward-looking information and statements, some of which may be beyond the control of management.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the expectations and assumptions the Company's strategies are founded on; the consolidation and expansion of Harborside's California retail footprint in the Bay Area; the scale and improvement of the Company's cannabis production/manufacturing capabilities; the expansion of the Company's wholesale and business-to-business sales of its cannabis products; evaluating the launching of new branded products, the success in the Company's operations, in establishing its position as one (1) of California's premier vertically-integrated cannabis companies in the US; and the Company's ability to meet its working capital needs for the twelve-months period ending June 30, 2020, including the cost and potential impact in complying with existing and proposed laws and regulations. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements.

Although the Company believes that the expectations, estimates, and projections reflected in such forward-looking information and statements are reasonable, such forward-looking information and statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and statements. On this basis, readers are cautioned not to place undue reliance on such forward-looking information and statements.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this MD&A are made as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations, as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

Use of Non-IFRS Financial Measures

This MD&A contains references to "Earnings Before Interest, Taxes, Depreciation, and Amortization" ("EBITDA"), "Adjusted Gross Profit" and "Adjusted Gross Margin", which are non-IFRS financial measures.

EBITDA is a measure of the Company's overall financial performance and is used as an alternative to earnings or net income in some circumstances. EBITDA is essentially net income (loss) with interest, taxes, depreciation and amortization, non-cash adjustments and other unusual items added back. EBITDA can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. EBITDA is often used in valuation ratios and can be compared to enterprise value and revenue. The term EBITDA does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted Gross Profit and Adjusted Gross Margin exclude the fair value adjustments for the Company's biological assets. Management believes these measures provide useful information as they represent the gross profit based on the Company's cost to produce inventories sold and removes fair value metrics tied to changing inventory levels, as required by IFRS.

There are no comparable IFRS financial measures presented in Harborside's unaudited condensed interim consolidated financial statements. Reconciliations of the supplemental non-IFRS financial measures are presented in the MD&A to provide information useful to shareholders and investors in understanding our performance and may assist in the evaluation of the Company's business relative to that of its peers.

Description of Business

Harborside operates two (2) major dispensaries in the San Francisco Bay Area (the "Bay Area") and a cultivation facility in Salinas, in the State of California, and two (2) dispensaries in the State of Oregon (the "Oregon Dispensaries") in the United Stated (the "US"). Harborside's dispensaries include the Harborside Dispensaries (as defined herein) of the Bay Area (Harborside Oakland and Harborside San Jose (as defined herein)), which have over 10 years of operating history, with over CAD $400 million of historical sales, and in excess of 270,000 patients and customers served. Harborside Oakland's dispensary is one (1) of the largest retail cannabis locations in the world, having received one (1) of the first six (6) commercial cannabis licenses issued in the US. Harborside will also manage two (2) other dispensaries in California, one (1) in San Leandro, and another in Desert Hot Springs ("Harborside Desert Hot Springs"), both of which are expected to commence operations in or before the fourth quarter of 2019. The Company's objective is to maintain and build its position as one (1) of California's top-three vertically integrated cannabis companies.

On May 30, 2019, FLRish and Lineage completed a reverse takeover transaction ("RTO Transaction"), providing for the acquisition by Lineage of all of the issued and outstanding common shares of FLRish, by way of a "three-cornered" merger, whereby FLRish became a wholly-owned subsidiary of Lineage. Pursuant to the terms of the merger agreement (the "Merger Agreement") dated February 8, 2019, and concurrent with the closing of the RTO Transaction, Lineage consolidated its common shares on the basis of approximately 41.82 common shares into one (1) new common share (the "Consolidation") which were reclassified as post-Consolidation common shares as subordinate voting shares ("SVS") of the resulting entity (the "Resulting Issuer"), created a new class of multiple voting shares ("MVS") of the Resulting Issuer, and changed its name to Harborside Inc. Holders of shares of FLRish received MVS, SVS, or a combination thereof, for each share of FLRish outstanding immediately prior to completion of the RTO Transaction. As a result of the RTO Transaction, the information presented in this MD&A and the Company's unaudited condensed interim financial statements as at and for the three and six months ended June 30, 2019 are presented as a continuance of FLRish and all comparative figures presented on a consolidated basis in the reports are those of FLRish.

The Company's SVS are listed on the Canadian Securities Exchange (the "CSE") under the trading symbol "HBOR".

The address of the Company's registered office is 181 Bay Street Suite 1800, Toronto, Ontario M5J 2T9, Canada, and the Company's head office is 2100 Embarcadero, Suite 202, Oakland, California, 94606, US.

Recent Developments

On February 8, 2019, Lineage and FLRish entered into the Merger Agreement, whereby the RTO Transaction was being structured as a three-cornered merger (the "Merger"). Pursuant to the Merger Agreement, which was amended on April 17, 2019, FLRish agreed to, among other things, merge with Lineage Merger Sub Inc., a wholly-owned subsidiary of Lineage, to form a merged corporation.

On May 17, 2019, FLRish completed a brokered private placement offering (the "Brokered Concurrent Financing") of 2,508,434 subscription receipts (each, a "Subscription Receipt") at a price of CAD $7.00 per Subscription Receipt (the "Concurrent Offering Price") for gross proceeds of $13,358,976 (CAD $17,559,038). In addition, FLRish completed a concurrent non-brokered offering of 298,547 Subscription Receipts for gross proceeds of $1,589,949 (CAD $2,089,829) on the same terms as the Brokered Concurrent Offering (the "Non-Brokered Concurrent Offering"). The aggregate gross proceeds of the Brokered Concurrent Offering and the Non-Brokered Concurrent Offering were approximately $14,948,925 (CAD $19,648,867).

Each Subscription Receipt automatically converted into one (1) share of Series D Common Stock (each, a "Series D Share") and one (1) FLRish warrant (each whole warrant, an "Series D Warrant") immediately prior to and in connection with the completion of the RTO Transaction, without payment of any additional consideration and with no further action on the part of the holder. Each Series D Warrant issued on conversion of the Subscription Receipts entitles the holder thereof to purchase one (1) Series D Share at an exercise price of CAD $8.75 per share until May 17, 2021, subject to adjustment in certain circumstances. On closing of the RTO Transaction, each Series D Share and Series D Warrant issued on conversion of the Subscription Receipts was immediately exchanged for equivalent securities of the Resulting Issuer, being one (1) SVS and one (1) warrant to purchase an SVS.

On May 24, 2019, Lineage's board approved and paid a stock dividend to holders of common shares of record on May 23, 2019. The following shares were authorized and issued:

- 44,775,010 Series A Special Shares;
- 11,513,533 Series B Special Shares; and
- 14,072,120 Series C Special Shares;

On May 30, 2019, the RTO Transaction closed pursuant to the terms of the Merger Agreement.

On June 10, 2019, the SVS of the Company commenced trading on the CSE under the trading symbol "HBOR".

In July 2019, the Company entered into a letter agreement (the "Mackie Agreement") with Mackie Research Capital Corporation ("Mackie"), to provide trading, market stabilization and liquidity services for the Company in accordance with regulatory guidelines.

In August 2019, the Company entered into an issuer trading services agreement (the "Generation Agreement") with Generation Advisors Inc. ("Generation"), whereby Generation would provide trading, market stabilization and liquidity services for the Company in accordance with regulatory guidelines.

On August 1, 2019, the Company closed the acquisition of a 100% ownership interest in Patients Mutual Assistance Collective Corporation ("PMACC"), a corporation governed under the laws of California which operates the retail Harborside dispensaries in Oakland ("Harborside Oakland") and San Jose ("Harborside San Jose", and together with Harborside Oakland, the "Harborside Dispensaries"), pursuant to a series of agreements (the "Merger Option Agreements") previously entered between FLRish, the Harborside Dispensaries, and the shareholders of the Harborside Dispensaries. As a result of the exercise of an option granted under the Merger Option Agreements (the "Merger Option") to acquire PMACC, Harborside also acquired, indirectly, a 50% ownership interest in San Leandro Wellness Solutions Inc. ("SLWS"), a corporation governed under the laws of California, which owns the entitlement on a retail dispensary located in San Leandro.

Merger Option Agreements

FLRish previously entered into the Merger Option Agreements, pursuant to which the Company would manage and operate the business of the Harborside Dispensaries, and obtain the right to purchase, and merge into subsidiaries of FLRish, all of the interests of the Harborside Dispensaries.

The acquisition of the Harborside Dispensaries takes effect immediately either by way of acquisition of control for accounting purposes without acquiring ownership interest, or by way of acquiring ownership interest through the exercise of the Merger Option if certain conditions for the exercise have been satisfied or waived.

For the purposes of this MD&A and the Q2 2019 Interim Financial Statements, the Company is considered to have "control" over the business of the Harborside Dispensaries for accounting purposes, regardless of the exercise of the Merger Option, under the terms of the Merger Option Agreements, if it is sufficient to enable consolidation of the Harborside Dispensaries' financial statements into the consolidated financial statements of the Company pursuant to IFRS. Such sources of control include the ability to identify and elect the board of directors of the Harborside Dispensaries, to limit the ability of the Harborside Dispensaries to renegotiate or otherwise amend management service agreements, to replace executive directors, to exercise voting controls over shares, and to otherwise require various actions of the Harborside Dispensaries to ensure that value is retained within those entities until the Merger Option expire or is exercised. Additionally, the Harborside Dispensaries will not make any equity distributions so that the Company will have the right, upon exercise of the Merger Option to obtain all value retained by the entities. As such, the comparative figures throughout this MD&A and the Q2 2019 Interim Financial Statements have been presented on a consolidated basis with the financial results of FLRish and PMACC combined.

Outlook and Growth Strategy[1]

The Company expects to continue to pursue management's vision of a vertically integrated, California-centric cannabis company focused on retail, bulk wholesale and branded product wholesale sales channels.

The Company is continuing to carry on the businesses of FLRish, PMACC, San Jose Wellness ("SJW") and Lineage as a vertically integrated, fully licensed, California-centric cannabis company, as it intends to benefit from the resulting synergies. As the regulated California market continues to develop, management sees strong potential growth in diversified retail platforms including consultative sales and consumer educational platforms as well as more transactional lifestyle platforms, as well as consumer and business-to-business ("B2B") demand for branded products and product lines, including brands serving specific consumer demographics. The Company's "Harborside" and "Key" brands are market leaders and well positioned in the area of branded products.

The Company's business consists of three (3) primary segments: (i) retail dispensaries, (ii) cultivation and production, and (iii) wholesale sales (including branded product sales). The Company also provides management advisory and administrative services SLWS and Harborside Desert Hot Springs.

Regarding dispensaries, the Company:

- Owns two (2) dispensaries in California: Harborside Oakland and Harborside San Jose;
- Owns two (2) dispensaries in Oregon (Terpene Station); and
- Manages two (2) other dispensaries in California: SLWS and Harborside Desert Hot Springs.

The Company operates a cultivation facility at the Salinas Farm in Salinas, Monterey County, California. The facility at Salinas Farm is approximately four (4) acres in size, enabling the Company to produce a diverse array of cannabis products offered at varying price points, meeting the ever diverse and changing buying habits of customers and other dispensaries, manufacturers and distributors. The Company's production facilities enable it to fill its in-house brands with its own cannabis biomass.

[1] This section contains forward looking information and is based on a number of risks and assumptions, including those described under "Assumptions and Expectations". See "Cautionary Note Regarding Forward Looking Statements".

Strategies

The business objectives that the Company intends to accomplish in the forthcoming 12-month period are as follows:

- Consolidate and expand its California retail footprint, particularly in the Bay Area;
- Scale and improve cannabis production/manufacturing capabilities;
- Expand wholesale and B2B sales of its cannabis products; and
- Launch at least two (2) new in-house brands.

In addition to the above objectives, the Company expects to complete certain strategic retail acquisitions, consistent with its strategies of expanding its California retail footprint portfolio.

Assumptions and Expectations

The Company's strategies are founded on its core market assumptions and expectations, including:

- Led by states in the US, legalization will continue to contribute to the industry's growth momentum, and California will represent the largest state market;
- Adult-use and medical cannabis consumption will increase as branded and manufactured products become increasingly popular and cannabis use becomes more widely acceptable and prevalent;
- Cultivation and retail sectors will commoditize; trusted brands and diversified manufactured products offering value to a range of consumer demographics will win the market; and
- California will provide an efficient base to service an interstate commerce market if and when it opens up.

Given the growth trajectory of the California cannabis market in comparison to other US state markets and internationally, Harborside will focus on a California-centric business model to consolidate and increase its market share in California, with an initial focus on the Bay Area where the Harborside Dispensaries have already earned considerable market share.

While the Company has invested significantly to scale its production operations, management also recognizes and believes that unbranded cannabis flower sales price will be impacted significantly by commoditization as production scales in California. As such, scale alone is not sufficient to mitigate this risk, and developing trusted branded products will be necessary to retain customer loyalty, grow market share, and protect operating margins as the price of unbranded flower decreases.

For this reason, the Company will consider investment opportunities to enhance its branded product offerings. The strategy will likely focus on the wellness aspects of the products and also target cost-conscious market demographics by emphasizing value.

In addition, Harborside also recognizes that consumer purchasing habits are trending in favor of manufactured products over flower and expects this trend will continue as new product categories are created and existing manufactured products are improved. Given this trend of increasing demand for manufactured and branded products, the Company will prioritize development of its manufactured products under its own brands.

Strategic Retail Acquisitions

Harborside is actively pursuing growth opportunities to expand its portfolio in the medical and adult-use cannabis industry in the Bay Area. The following is a summary of the acquisition ("Acquisition Targets") currently in its pipeline:

<u>Altai</u>

On March 28, 2018, Lineage entered into a binding Letter of Intent ("LOI") to acquire a 100% interest in Altai Partners, LLC ("Altai"), a California limited liability company operating (the "Altai Acquisition"). Altai had in place a binding agreement dated March 15, 2018, as amended to acquire a minimum 45% ownership interest in Lucrum Enterprises Inc., d/b/a LUX Cannabis Dispensary ("LUX"). On March 28, 2018, Altai subsequently entered into an additional agreement to acquire the remaining 55% ownership interest in LUX. See "Proposed Transactions" for further details regarding the Altai Acquisition.

LUX currently holds four (4) licenses in California including retail, cultivation, extraction, and delivery. Currently, cannabis business activity conducted by LUX is limited to the retailing of cannabis products. LUX's cannabis retail operations are conducted in a 3,700 square foot ("sq. ft.") retail space located in southeast San Jose. The LUX dispensary acquires cannabis products including cannabis flower, vape pens, oils, extracts, edibles and pre-rolls from wholesale producers via distribution partners and markets those products to recreational and medical cannabis consumers while maintaining compliance with the rules set forth by the Bureau of Cannabis Control ("BCC"), California Department of Public Health ("CFPH") and California Department of Food and Agriculture ("CDFA") and all other applicable state and local laws, regulations, ordinances, and other requirements.

The Altai Acquisition aligns with the Company's strategy through acquisitions, and it provides Harborside an opportunity to further expand its footprint in the growing California retail market. In the near-term, the Company intends to commence development of a cannabis delivery service for LUX's various product offerings and is currently engaged in discussions with multiple parties with a view towards establishing a dominant cannabis delivery business. Cannabis delivery services have and continue to experience significant growth in California since legalization in the state, and development of its own delivery service will allow for further integrated customer offering, and further develop its strategic objective of becoming one (1) of the premier vertically-integrated cannabis companies in the Bay Area.

Agris Farms

On June 12, 2018, Lineage entered into a term sheet (the "Term Sheet") to acquire California based Walnut Oaks, LLC d/b/a Agris Farms ("Agris Farms"), which operates a fully licensed and fully operational 43,500 sq.ft. greenhouse cannabis cultivation facility in Yolo County, California.

On November 20, 2018, Lineage, through Lineage GCL California, entered into a membership interest purchase agreement (the "Agris Agreement") to acquire a 100% interest in Agris Farms, a California limited liability company (the "Agris Acquisition"). Agris Farms operated a premium quality craft cannabis cultivation facility in Yolo County in Northern California. Agris Farms is in commercial production with annual production capacity of 6,000 lbs of premium quality craft cannabis. See "Proposed Transactions" for further details regarding the Agris Farms Acquisition.

On August 29, 2019, management determined that the Company does not expect to proceed with the Agris Acquisition as contemplated by the Agris Agreement, in light of the principal owner's demand for an increase in the purchase price and other terms which in management's judgment make the transaction not in furtherance of the Company's goals or strategy or otherwise in the interests of the Company's shareholders, and given the Company's already substantial capacity to produce high-quality cannabis at its Salinas facility at significant scale. The Company expressly reserves in all respects all rights it has or may have under the Agris Agreement.

Airfield

On October 1, 2018, FLRish entered into a LOI with Airfield Supply Company ("Airfield") to acquire Airfield (the "Airfield Acquisition"). Airfield is a fully licensed, vertically integrated cannabis retail dispensary and cultivation facility located in San Jose, operating under the "Airfield Supply Co." brand name, with a 2,000 sq. ft. aviation themed retail store and a 10,000 sq. ft. cultivation area, operated by approximately 125 employees. Airfield is located in close proximity to the San Jose International Airport as well as Santa Clara University and Silicon Valley. The Airfield Acquisition includes the proposed acquisition of shares and related intellectual property assets of an integrated cannabis retail dispensary and cultivation facility.

On April 23, 2019, a wholly-owned subsidiary of FLRish entered into a definitive stock purchase agreement with Airfield and its owner pursuant to which, among other things, it would acquire 100% of the outstanding capital stock of Airfield (the "Airfield Agreement"). On or about August 1, 2019, the parties to the Airfield Acquisition agreed to extend the outside date for completion of the transaction. Closing of the Airfield Acquisition is conditional, among other things, on receipt of all required regulatory, director and shareholder approvals, execution of definitive agreements and certain other conditions that are customary for transactions of this nature.

On August 29, 2019, management determined that the Company would not proceed with the transactions contemplated by the stock purchase agreement among FLRish Retail Management & Security Services LLC and Airfield Supply Co., Inc. and its owner, in light of the Company's current share price and the substantial cash component of the purchase price which management has determined is not in the best interests of shareholders.

Canadian Companies with U.S. Marijuana-Related Assets

On February 8, 2018, the CSA published Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* (the "Staff Notice"), which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the US as permitted within a particular state's regulatory framework. All issuers with US cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents.

Such disclosure includes, but is not limited to, (i) a description of the nature of a reporting issuer's involvement in the US marijuana industry; (ii) an explanation that marijuana is illegal under US federal law and that the US enforcement approach is subject to change; (iii) a statement about whether and how the reporting issuer's US marijuana-related activities are conducted in a manner consistent with US federal enforcement priorities; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the US marijuana industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice.

At this time, the Company's involvement in the US cannabis industry is "Direct" through its operations from the Harborside Dispensaries in Oakland and San Jose, and Oregon Dispensaries in Oregon, while the involvement is "Indirect" through its proposed Acquisition Targets (as described below) operating in the US cannabis industry. As a result of the Company's current operations and proposed Acquisition Targets, the Company is subject to the requirements of the Staff Notice and accordingly provides the following disclosures:

Compliance with Applicable State Laws in the US

The Company has obtained legal advice regarding compliance with applicable state regulatory frameworks and exposure and implication arising from US federal law in the states where its retails dispensaries and Acquisition Targets conduct operations. As of August 29, 2019, the Company has not received any notices of violation, denial or non-compliance from any US authorities which would result in a restriction of operations and fines.

Nature of Subsidiaries and Acquisition Targets with US Cannabis-Related Activities

<u>Harborside Dispensaries</u>

The Company operates two (2) flagship dispensaries in the Bay Area, a cultivation facility in Salinas, and owns the Harborside" and "Key" brands. The Company manages the Harborside Oakland and Harborside San Jose retail cannabis dispensary stores in California, which is believed to be the largest adult-use cannabis market in the US. The Harborside Oakland dispensary was founded in 2006 by Steve DeAngelo and dress wedding, and the Harborside brand today is well known throughout California and globally. Combined, the Harborside Dispensaries have generated over CAD $400 million in sales since their opening, including over CAD $50 million sales in in 2018 and 2017.

<u>Terpene Station</u>

Terpene Station operates the Oregon Dispensaries, and is engaged in the selling of cannabis products such as flower, edibles and oil derivative products, through retail space of more than 5,500 sq. ft. across two locations in southeast Portland and downtown Eugene. The Portland location was the first licensed recreational store in the state and both locations are recognized for their premium product offerings and track record of serving the craft segment of the Oregon cannabis market. In September 2018, Lineage acquired Terpene Station (the "Terpene Acquisition") and transferred the Oregon Liquor and Cannabis Commission ("OLCC") Licenses to its name upon closing of the Terpene

Acquisition, which offers an existing base of revenue-generating assets positioned in the adult-use market. The Company has since centralized purchasing decisions for the Oregon Dispensaries to improve margins, and has also upgraded the store locations in order to increase sales.

<u>Altai</u>

On March 28, 2018, Lineage entered into a binding LOI relating to the Altai Acquisition. Altai has an agreement in place to acquire a 45% interest in LUX, a licensed dispensary operating in San Jose. LUX operates as a cannabis retailer in California engaged in the selling of cannabis products such as flower, edibles and oil derivative products. Upon completion of the Altai Acquisition, the Company will hold a 100% ownership interest in LUX. See "Proposed Transactions" for further details.

<u>Agris Farms</u>

On June 12, 2018, Lineage entered into the Term Sheet to acquire Agris Farms, which operates a fully licensed and fully operational 43,500 sq. ft. greenhouse cannabis cultivation facility in Yolo County, California. On November 20, 2018, the Company entered into the Agris Agreement to complete the Agris Acquisition. Pursuant to the Agris Agreement, the Company would acquire a 100% ownership interest in Agris Farms. See "Proposed Transactions" for further details.

Due to the present state of the laws and regulations governing financial institutions in the US, banks often refuse to provide banking services to businesses involved in the marijuana industry. Consequently, the Company is not able to obtain bank financing in the US or financing from other US federally regulated entities. The Company has access to equity and debt financing from prospectus exempt (private placement) markets in the US and Canada, *as well as the public markets in Canada as a result of its status as a listed company on the CSE, subject in all respects to the requirements of Canadian securities laws and the rules and regulations of the CSE*. The management of the Company has relationships with sources of private capital (such as funds and high net worth individuals). However, there can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable.

Compliance

The Company's compliance program consists of an in-house Quality and Compliance team dedicated to ensuring compliance with applicable US state and federal law on an ongoing basis. The Quality and Compliance team consists of a Chief Compliance Officer ("COO"), a Director, and two (2) staff members tasked with carrying out the numerous and various compliance related tasks including ongoing review of Company's policies and procedures to ensure alignment with local and state rules and regulations, ongoing training on state rules and regulations for all staff, monthly internal audits of processes and procedures as well as facility inspections to ensure compliance with applicable local and state rules and regulations. The Company is not aware of any citations or notices of violation which may impact the Company's licenses, business activities or operations.

Regulatory Overview

US Federal Law

While marijuana and marijuana-infused products are legal under the laws of several US States (with vastly differing restrictions), presently the concept of "medical marijuana" and "retail marijuana" do not exist under US federal law. The US *Federal Controlled Substances Act* ("FCSA") classifies "marijuana" as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision.

The US Supreme Court has ruled in a number of cases that the federal government does not violate the federal constitution by regulating and criminalizing cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana pre-empts state laws that legalizes its use for medicinal and adult-use purposes.

The US Department of Justice (the "DOJ") has issued official guidance regarding marijuana enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use marijuana. In each instance, the DOJ has stated that it is committed to the enforcement of federal laws and regulations related to marijuana. However, the DOJ has also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the DOJ has rescinded all federal enforcement guidance specific to marijuana and has instead directed that federal prosecutors should follow the "Principles of Federal Prosecution" originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the US Attorney's Manual creating broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo, the memorandum dated August 29, 2013, as being an enforcement priority.

Prior to 2018 and in the Cole Memo, the DOJ acknowledged that certain US states had enacted laws relating to the use of marijuana and outlined the US federal government's enforcement priorities with respect to marijuana notwithstanding the fact that certain states have legalized or decriminalized the use, sale, and manufacture of marijuana. The Cole Memo was addressed to "All United States Attorneys" from James M. Cole, Deputy Attorney General of the US, as may be supplemented or amended indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight (8) priorities, which are to prevent:

(1) Distribution of cannabis to minors;
(2) Criminal enterprises, gangs and cartels from receiving revenue from the sale of cannabis;
(3) Transfer of cannabis from States where it is legal to States where it is illegal;
(4) Cannabis activity from being a pretext for trafficking of other illegal drugs or illegal activity;
(5) Violence or use of firearms in cannabis cultivation and distribution;
(6) Drugged driving and adverse public health consequences from cannabis use;
(7) Growth of cannabis on federal lands; and
(8) Cannabis possession or use on federal property.

On November 14, 2017, Jeff Sessions, the US Attorney General, made a comment before the House Judiciary Committee about prosecutorial forbearance regarding state-licensed marijuana businesses. In his statement, Attorney General Sessions stated that the US federal government's current policy is the same fundamentally as the Holder-Lynch policy, whereby the States may legalize marijuana for its law enforcement purposes, but it remains illegal with regard to federal purposes.

On January 4, 2018, the Cole Memo was rescinded by a one-page memo signed by Attorney General Sessions (the "Sessions Memo"). It is the Company's opinion that the Sessions Memo does not represent a significant policy shift as it does not alter the DOJ's discretion or ability to enforce federal marijuana laws rather just provides additional latitude to the DOJ to potentially prosecute state-legal marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo as being an enforcement priority. The result of the rescission of the Cole Memo is that federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions; however, discretion is still given to the federal prosecutor to weigh all relevant considerations of the crime, including the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community. No direction was given to federal prosecutors as to the priority they should ascribe to such activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities.

Furthermore, the Sessions Memo did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis is currently protected against enforcement by enacted legislation from US Congress in the form of the Rohrabacher-Blumenauer Amendment (as defined herein) which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding. See "US Enforcement Proceedings". Due to the ambiguity of the Sessions Memo in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. See "Risk Factors".

Even though the Cole Memo has been rescinded, the Company will continue to abide by its principles and prescriptions, as well as strictly following the regulations set forth by the current US Federal enforcement guidelines and US states in which the retail cannabis dispensaries and Acquisition Targets operate in.

On January 16, 2018, a bipartisan coalition of State Attorneys General had issued a letter to Congressional leadership urging them to "advance legislation" to permit state-licensed marijuana businesses greater access to banking and other financial services. The letter is undersigned by the Attorneys General from the States of Alaska, California, Colorado, Connecticut, Hawaii, Illinois, Iowa, Maine, Maryland, Massachusetts, New Mexico, New York, Oregon, Pennsylvania, Vermont, and Washington, as well as from the District of Columbia and the US territory of Guam.

On March 22, 2018, the House of Representatives and Senate voted in favor of approving the Omnibus Spending Bill (the "Bill") and it was signed into law the following day by the President Donald Trump. With the Bill's approval comes an extension of Rohrabacher-Leahy Amendment until September 2018, which is represented by Section 538 of the Bill. Rohrabacher-Leahy Amendment prevents the DOJ from using federal funds in enforcing federal law relating to medical cannabis, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical marijuana. The amendment was first introduced in 2014 and has been reaffirmed annually since then. It should be noted that this amendment does not apply to adult-use marijuana.

On April 13, 2018, the Washington Post reported that President Trump and Colorado Senator Cory Gardner reached an understanding that the marijuana industry in Colorado will not be the subject of interference from the federal government and that the DOJ's recession of the Cole memo will not impact Colorado's legal marijuana industry. Furthermore, President Trump provided assurances that he will support a federalism-based legislative solution to fix the issue regarding states' rights to regulate cannabis, and that former House Speaker John Boehner has been appointed to the advisory board of a private US cannabis company. The Company is pleased to see reports that President Trump has promised top Senate Republicans that he will support congressional efforts to protect states that have legalized marijuana. The Company is cautiously optimistic that these recent developments represent a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government.

On November 7, 2018, Attorney General Sessions resigned after the US Mid-Term Elections, both of which would potentially impact the US cannabis industry. From the Mid-Term Elections, US voters delivered a split verdict for Congress, as the Democrats secured a majority in the House of Representatives (the "House") while the Republicans expanded their majority in the Senate. With the Democrats taking back control of the House, it may prove to be a catalyst for the sector to reinforce the notion that cannabis in the US is getting closer to the path of eventual full legal status. While pro-cannabis legislation would still require passing the Senate and the Executive Branch, the path to legalization seems to have opened up with Mr. Sessions's departure. With divided congressional power, there will be opportunity for bipartisanship on a number of issues including the Strengthening the Tenth Amendment Through Entrusting States Act, S. 3032 ("STATES Act"), which would protect individuals working in cannabis sectors from federal prosecution. The STATES Act was introduced in June 2018 through bi-partisan efforts initiated by Senator Gardner together with Massachusetts Senator Elizabeth Warren. Senator Warren won re-election which ensures she will push the change to federal law regarding cannabis. In addition, constituents of Michigan voted to legalize recreational marijuana, making Michigan the first state in the Midwest to do so and the 10th in the US overall demonstrating growing sentiment amongst Americans towards legalization. Voters in Missouri and Utah approved ballot measures legalizing cannabis for medical use, making their states the 31st and 32nd to do so.

On December 20, 2018, the 2018 Farm Bill was signed by President Trump, and it permanently removed hemp and hemp derivatives such as CBD from the purview of the FCSA. Prior to its enactment, the 2014 Farm Bill allowed Industrial Hemp to be cultivated under agricultural pilot programs conducted by state departments of agriculture and institutions of higher education. The Statement of Principles published by the USDA, the DEA and the FDA in 2016 confirmed that state departments of agriculture, and persons licensed, registered, or otherwise authorized by them to conduct research under an agricultural pilot program in accordance with the 2014 Farm Bill, or persons employed by or under a production contract or lease with them to conduct such research, may grow or cultivate Industrial Hemp as part of the agricultural pilot program.

Most recently, the US Congress passed H.R. 3055, the "Commerce, Justice, Science, Agriculture, Rural Development, Food and Drug Administration, Interior, Environment, Military Construction, Veterans Affairs, Transportation, and Housing and Urban Development Appropriations Act, 2020" (the "2020 Appropriations Act").

On June 20, 2019, the 2020 Appropriations Act was Amended by a U.S. Congress house floor vote (267-165) to include Amendment No. 17 (*Blumenauer (D-OR), Norton (D-DC), McClintock (R-CA)*), which expanded the previously-mentioned protective cannabis amendments to appropriations bills and which now specifically prohibits the DOJ from interfering with "state cannabis programs", which includes both medical and adult-use cannabis programs.

On July 10, 2019, the House Judiciary Subcommittee on Crime, Terrorism and Homeland Security gathered to debate marijuana reform, as lawmakers sought input on federal laws reform in a hearing titled "Marijuana Laws in America: Racial Justice and the Need for Reform." Numerous members of Congress had indicated their intention to loosen federal laws, and to even legalize marijuana. Despite the optimism, lawmakers did not appear to have a clear consensus on the best approach, such as whether to give states the right to legalize on their own, remove marijuana from Schedule 1 of the FCSA, legalize it or include promote social and racial equity in marijuana laws.

Although Jeff Sessions has been replaced by President Trump with William Barr, there is still very little clarity as to how President Trump, or Attorney General Barr, will enforce federal law or how they will deal with states that have legalized medical or recreational marijuana. There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of US federal laws that conflict with State laws. Additionally, any new US federal government administration that follows could change this policy and decide to enforce the US federal law vigorously. **Any such change in the US federal government's enforcement of current US federal law could cause adverse financial impact and remain a significant risk to the Company's and its Acquisition Targets' businesses, which could in turn have an impact on the Company's operations. A change in its enforcement policies could impact the ability of the Company to continue as a going concern**. See "Risk Factors".

US Enforcement Proceedings

The US Congress has passed appropriations bills each of the last three (3) years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("Rohrabacher-Blumenauer Amendment"), which by its terms does not appropriate any federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the US Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the ''Rohrabacher-Leahy Amendment'') and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of September 30, 2018. These protections were subsequently extended through December 21, 2018 as part of a short-term continuation of appropriations. Following the much-publicized shutdown of the US Federal Government, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with the Joyce Amendment intact (Section 538). As it stands, the Joyce Amendment will provide the medical marijuana industry with protection against federal prosecution until September 30, 2019.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with state law – could be prosecuted for violations of federal law. If Congress restores funding, the US federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the FCSA's five-year statute of limitations.

State-Level Overview

Regulations differ significantly amongst the US states. Some US states only permit the cultivation, processing and distribution of medical marijuana and marijuana-infused products. Some others may also permit the cultivation, processing, and distribution of marijuana for adult purposes and retail marijuana-infused products. The following sections present an overview of state-level regulatory conditions for the marijuana industry in which the Company's retail dispensaries and Acquisition Targets have an operating presence:

California

In 1996, California was the first state to legalize medical marijuana through Proposition 215, the Compassionate Use Act of 1996 ("CUA"). Oakland was the first jurisdiction to license commercial cannabis activities in the US. This legalized the use, possession and cultivation of medical marijuana by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which marijuana provides relief. However, there was no State licensing authority to oversee businesses that emerged.

In September of 2015, the California legislature passed three (3) bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("MCRSA"). The MCRSA establishes a licensing and regulatory framework for medical marijuana businesses in California. The system has multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers will require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies will oversee different aspects of the program and businesses will require a State license and local approval to operate.

On November 8, 2016, California voted to approve the "Adult Use of Marijuana Act" ("AUMA") to tax and regulate for all adults 21 years of age and older.

On June 27, 2017, California State Legislature passed Senate Bill No. 94, known as the "Medicinal and Adult-Use Cannabis Regulation and Safety Act" ("MAUCRSA"), which amalgamates the MCRSA and AUMA frameworks to provide a set of regulations to govern medical and adult-use licensing regime for cannabis businesses in the State of California. On November 16, 2017, the State Government introduced the emergency regulations, which shall be governed by the BCC, the CDPH and the CDFA, which provide further clarity on the regulatory framework that will govern cannabis businesses. The regulations build on the regulations provided by MCRSA and AUMA and also specify that the businesses will need to comply with the local law in order to also comply with the State regulations. On January 1, 2018, the new State regulations took effect as California moved to full adult-use state legalization for cannabis products.

To operate legally a medical or adult-use cannabis business in California, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining the state license, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are no residency requirements for ownership under MAUCRSA.

In California, two (2) state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memo. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize, cannabis," "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent."

On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with $2.5 million in federal money backing the effort. McGregor Scott, US Attorney for the Eastern District of California, said he will prioritize illegal weed rather than going after the legal recreational marijuana market even though US federal law bans marijuana. He stated, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there," "So for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

In March 2019, lawmakers in California had proposed State Senate Bill 51, which is designed to help cannabis businesses that have been shut out from the traditional banking system. Cannabis businesses has dealt predominantly in cash due to continued federal banking restrictions that make it nearly impossible for them to have bank accounts with federally chartered financial institutions. There had also been efforts underway at the federal level to pass legislation that would allow banks to serve cannabis-related businesses without the risk of being prosecuted. The proposed measure would allow private banks or credit unions to apply for a limited-purpose state charter so they can provide depository services to licensed cannabis businesses. California's legal marijuana industry is struggling to compete with the black market and is facing challenges that include banking access and high taxes.

In May 2019, Attorney General Becerra, along with 37 other state and territorial attorneys, had sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for marijuana companies. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

Oregon

At present, Oregon has both medical and adult-use marijuana programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical marijuana law with an inclusive set of qualifying conditions that include chronic pain. In 2013, the legislature passed, and governor signed, House Bill 3460 to create a regulatory structure for existing unlicensed medical marijuana businesses. However, the original regulations created by the Oregon Health Authority ("OHA") after the passage of House Bill 3460 were minimal and only regulated storefront dispensaries, leaving cultivators and infused-product manufacturers within the unregulated patient/caregiver system. On June 30, 2015, Governor Kate Brown signed House Bill 3400 into law, which improved on the existing regulatory structure for medical marijuana businesses and created a licensing process for cultivators (growers) and processors. The OHA is the state agency that licenses and regulates medical marijuana businesses. The medical marijuana regulatory framework is referred to as the Oregon Medical Marijuana Program.

In November of 2014, Oregon voters passed Measure 91, "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act" creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use from licensed retail marijuana stores, as well as cultivating marijuana at home. The OLCC licenses and regulates adult-use marijuana businesses and is currently accepting applications. On October 15, 2015, the OLCC published draft recreational marijuana rules, which were finalized and took effect on June 29, 2016, as OLCC Division 25 of the Oregon Administrative Rules ("OAR Division 25"). These rules have been updated on a regular basis since that time, due to administrative prerogative and legislative changes. Currently licensed cannabis companies in the State of Oregon are not subject to residency requirements. OAR Division 25 will continue to evolve and there is no certainty that changes will not adversely affect the Company's operations, as the changes are subject to OLCC's review and approval.

In Oregon, there are six (6) types of recreational marijuana licenses for commercial uses: Producer, Processor, Wholesaler, Retail, Laboratory, a Certificate for Research, and a Hemp Certificate. While there is no limit on the number of licenses being issued, state regulators in Oregon had temporarily discontinued processing new adult-use licenses effective June 15, 2018, due to an oversupplied recreational marijuana market and a backlog of applications in the state.

In February 2018, US Attorney Billy Williams told a gathering that included Governor Brown, law enforcement officials and representatives of the cannabis industry that Oregon has an "identifiable and formidable overproduction and diversion problem." In May 2018, Attorney Williams issued a memorandum spelling out five priorities for going after illegal cannabis operations that violate federal laws, with the first priority to crack down on the leakage of surplus marijuana into bordering states where pot is still against the law. The memo also stated that federal prosecutors will also target keeping marijuana out of the hands of minors, any crimes that involve violence or firearm violations or organized crime, and cultivation that threatens to damage federal lands through improper pesticide and water usage.

In May 2019, Oregon Attorney General Ellen Rosenblum, along with 37 other state and territorial attorneys, had sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for marijuana companies. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Oregon.

The following represents the portion of certain assets on Harborside's unaudited condensed interim consolidated statements of financial position that pertain to US cannabis activities as of June 30, 2019:

Statement of Financial Position Line Item	Percentage (%) which related to holdings with US marijuana-related activities
Cash	83%
Accounts receivable	96%
Inventories	100%
Biological assets	100%
Prepaid expenses	100%
Other current assets	100%
Investments and advances	100%
Property, plant and equipment	100%
Right-of-use assets	100%
Deposits	100%
Intangible assets	100%
Goodwill	100%

The following represents the operating exposure on Harborside's unaudited condensed interim consolidated statements of loss and comprehensive loss that pertain to US cannabis activities for the six months ended June 30, 2019:

Statement of Net Loss and Comprehensive Loss	Percentage (%) which related to holdings with US marijuana-related activities
Revenue	100%
Cost of goods sold	100%
Changes in fair value of biological assets	100%
General and administrative expenses	99%
Professional fees	100%
Stock-based compensation	100%
Share-based payments	0%
Depreciation and amortization	100%
Interest expense	100%
Fair value changes in derivative liabilities	100%
Provision for tax penalties	100%
Other expenses	100%

Financial Information

Selected Annual Information

Harborside's selected financial information as at and for the three (3) most recently completed financial years ended December 31 are summarized as follows:

	December 31, 2018	December 31, 2017	December 31, 2016
	$	$	$
Revenue	43,184,490	45,287,400	43,391,532
Cost of goods sold	33,732,582	37,703,947	33,712,990
Gross profit	11,146,352	9,034,503	10,215,881
Operating expenses	27,397,800	21,198,284	14,028,312
Other expenses	3,249,964	1,102,089	540,065
Net loss	(19,501,412)	(13,265,871)	(4,352,496)
Total assets	40,799,033	23,535,106	20,918,301
Total liabilities	61,527,772	32,222,139	15,922,602
Shareholders' (deficiency) equity	(20,728,739)	(8,687,033)	4,995,699

Selected Quarterly Financial Results

Harborside's selected financial information for the eight (8) most recently completed quarters as at June 30, 2019 are as follows:

	Q2 2019	Q1 2019	Q4 2018	Q3 2018
	$	$	$	$
Revenue	12,683,127	12,015,292	11,333,324	11,500,757
Cost of goods sold	(5,579,706)	(10,188,286)	(7,367,452)	(8,500,273)
Changes in fair value of biological assets	(185,539)	40,776	226,648	(579,889)
Gross profit	6,917,882	2,157,308	4,192,520	2,420,595
Operating loss	(6,103,912)	(4,968,561)	(4,948,775)	(3,739,319)
Other expenses	(9,469,164)	(1,107,610)	(1,781,518)	(628,134)
Net loss	(15,573,076)	(6,076,171)	(6,730,293)	(4,367,453)
Working capital (deficiency)	18,668,235	9,310,283	12,934,369	(6,857,310)

	Q2 2018	Q1 2018	Q4 2017	Q3 2017
	$	$	$	$
Revenue	10,589,440	9,760,970	10,887,747	10,739,691
Cost of goods sold	(9,133,313)	(9,383,615)	(11,589,395)	(8,182,413)
Changes in fair value of biological assets	1,999,153	48,532	(282,290)	431,099
Gross margin	3,455,280	425,887	(983,938)	2,988,377
Operating loss	(4,463,109)	(3,557,330)	(6,393,416)	(1,343,474)
Other expenses	(404,139)	(436,173)	(364,129)	(381,018)
Net loss	(4,867,248)	(4,003,903)	(6,757,545)	(1,724,492)
Working capital	(2,726,847)	(17,995,956)	(14,068,168)	(2,113,748)

Financial Results for the Three Months ended June 30, 2019

Results of Operations

During the three months ended June 30, 2019 ("Q2 2019"), the Company generated retail revenue of $10.5 million (Q2 2018 – $9.9 million), and $2.15 million (Q2 2018 – $698k) from wholesale sales. The retail revenue included sales of $138,165 generated from the Oregon Dispensaries since the close of the RTO Transaction. This represent a period-to-period increase of 19.8%. The comparative increases in revenues are in line with the various strategies implemented by management, including the launch of branded products, improved B2B demand and revamping of wholesales businesses.

In Q2 2019, the Company increased its margins through reduced cost of sales. Retail cost of goods sold decreased by approximately 17.2%, to $6.4 million, as compared to $7.7 million in Q2 2018. The Company also recorded a gain of $786k in wholesale cost of goods sold through sales and dispositions of goods which took place, compared to cost of sales of $1.4 million in Q2 2018, toward the beginning of the period. The change in fair value of biological assets reduced gross margin by $185k (Q2 2018 – gain of $2.0 million). Overall, the Company recorded gross profits of $6.9 million (gross margin of 54.5%) in the quarter, versus gross profits of $3.5 million (gross margin of 32.6%) in 2018.

In Q2 2019, the Company incurred total operating expenses of $13.0 million (Q2 2018 – $7.9 million). The significant jump in operating expenses in the current period is primarily due to the increases in:

- General & administrative ("G&A") expenses of $5.3 million compared to $4.0 million in Q2 2018, primarily attributable to the expansion of the California retail core business and expansion strategy;
- Professional fees of $3.7 million compared to $717k in Q2 2018, when a big part of the current period's fees was charged on efforts to bring the RTO Transaction to a close;
- Non-cash stock-based compensation of $1.5 million compared to $2.2 million in Q2 2018; related to vesting and recognition of the grant date value of previously granted options;
- Share-based payments of $2.3 million (Q2 2018 – $nil) on stock success fee of CAD $2,925,622 to FMI Capital Advisory Inc. ("FMICAI") satisfied by the issuance of 417,949 shares of Series D Common Stock of FLRish immediately prior to the completion of the RTO Transaction; and
- Depreciation and amortization of $283k compared to $238k in Q2 2018, on the Company's property, plant and equipment and its right-of-use assets ("RUA").

In addition, the Company also incurred total other expenses of $9.5 million in the current quarter (Q2 2018 – $404k), of which the increase is comprised of the following:

- Interest expenses of $1.9 million compared to $431k in Q2 2018, primarily related to interest and accretion recorded on the Company's convertible debts obligations, for which all FLRish's debentures were either converted or exchanged into MVS or SVS on completion of the RTO Transactions; and
- A one-time charge of $15.4 million providing for the potential tax penalties in relation to 280E deductions that the Company may be liable for; which were partially offset by:
- Foreign exchange gain of $652k in Q2 2019 (Q2 2018 – $nil); and
- Gain from change in fair value in derivative liabilities of $7.2 million (Q2 2018 – $nil).

Net loss for the three months ended June 30, 2019 was $15.6 million, as compared to a net loss of $4.8 million for Q2 2018.

The Company does not experience significant seasonality in its revenue and other important financial performance metrics. However, as a participant in the wholesale cannabis market in California, as a general matter, the overall supply of cannabis has historically increased in the months of September through December, due primarily from production of outdoor cannabis cultivation facilities whose major harvests occur during these months and which, as a result, could cause a decrease generally in the wholesale price for cannabis products.

Financial Results for the Six Months ended June 30, 2019

Results of Operations

During the six months ended June 30, 2019, the Company generated retail revenue of $19.7 million (2018 – $19.5 million), and $5.0 million (2018 – $838k) from wholesale sales. This represent a period-to-period increase of 21.4%. The comparative increases in revenues are in line with the various strategies implemented by management, including the launch of branded products, improved B2B demand and revamping of wholesales businesses.

In 2019, the Company increased its margins through reduced cost of sales. Retail cost of goods sold decreased by approximately 17.8%, to $12.2 million, as compared to $14.8 million in the comparative period. The change in fair value of biological assets further increased gross margin by $145k (2018 – $2.1 million). Overall, the Company recorded gross profits of $9.1 million (gross margin of 36.7%) in the current period, versus gross profits of $3.9 million (gross margin of 19.1%) in the comparative period.

During the six months ended June 30, 2019, the Company incurred total operating expenses of $20.1 million (2018 – $11.9 million). The significant jump in operating expenses in the current period is primarily due to the increases in:

- General & administrative ("G&A") expenses of $9.7 million compared to $7.1 million in 2018, primarily attributable to the expansion of the California retail core business and expansion strategy;
- Professional fees of $5.0 million compared to $826k in 2018, when a big part of the current period's fees was charged on efforts to bring the RTO Transaction to a close;
- Non-cash stock-based compensation of $2.6 million compared the same amount expensed in 2018; related to vesting and recognition of the grant date value of previously granted options;
- Share-based payments of $2.3 million (Q2 2018 – $nil) on stock success fee of CAD $2,925,622 to FMICAI satisfied by the issuance of 417,949 shares of Series D Common Stock of FLRish immediately prior to the completion of the RTO Transaction; and
- Depreciation and amortization of $567k compared to $378k in 2018, on the Company's property, plant and equipment and its RUAs.

In addition, the Company also incurred total other expenses of $10.7 million during the period (2018 – $840k), of which the increase is comprised of the following:

- Interest expenses of $4.8 million compared to $903k in 2018, primarily related to interest and accretion recorded on the Company's convertible debts obligations, for which all FLRish's debentures were either converted or exchanged into MVS or SVS on completion of the RTO Transaction; and
- A one-time charge of $15.4 million providing for the potential tax penalties in relation to 280E deductions that the Company may be liable for; which were partially offset by:
- Foreign exchange gain of $1.2 million (2018 – $nil); and
- Gain from change in fair value in derivative liabilities of $8.2 million (2018 – $nil).

Net loss for the six months ended June 30, 2019 was $21.7 million, as compared to a net loss of $8.9 million for the comparative period in 2018.

Cash Flows

Net cash used in operating activities during the six months ended June 30, 2019 was $9,627,429, as compared to net cash used in operations of $4,211,142 in the comparative period in 2018. The Company had substantially increased spending in its operations in the current year to date, as management continued the expansion strategy in California, as well as focusing its efforts on the RTO Transaction.

Net cash provided by financing activities during the six months ended June 30, 2019 was $15.2 million, as compared to $8.5 million in the comparative period in 2018, primarily from funds of $14.6 million raised from Brokered Concurrent Offering and the Non-Brokered Concurrent Offering in May 2019.

Net cash used in investing activities during the six months ended June 30, 2019 was $3.3 million, as compared to $2.4 million in the comparative period in 2018, primarily from additional investments made to the San Leandro facility of $728k (2018 – $317k) and additions in property, plant and equipment of $2.7 million (2018 – $2.1 million).

Non-IFRS Measures

The following information provides reconciliations of the supplemental non-IFRS financial measures, presented herein to the most directly comparable financial measures calculated and presented in accordance with IFRS. The Company has provided the non-IFRS financial measures, which are not calculated or presented in accordance with IFRS, as supplemental information. These supplemental non-IFRS financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believe that the supplemental non-IFRS financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. These supplemental non-IFRS measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the IFRS financial measures presented.

Adjusted Gross Profit & Adjusted Gross Margin

Adjusted Gross Profit and Adjusted Gross Margin exclude the fair value adjustments for the Company's biological assets.

	Three months ended June 30, 2019	Three months ended June 30, 2018	**Six months ended June 30, 2019**	Six months ended June 30, 2018
	$	$	**$**	$
Total Revenue	**12,683,127**	10,589,440	**24,698,419**	20,350,410
Gross Profit	**6,917,882**	3,455,280	**9,075,190**	3,881,167
Adjusted for:				
Net effect of change in fair value of biological assets	**185,539**	(1,999,153)	**(144,763)**	(2,047,685)
Adjusted Gross Profit	**7,103,421**	1,456,127	**8,930,427**	1,833,482
Adjusted Gross Margin	**56.0%**	13.8%	**36.2%**	9.0%

After adjusting for the effect of change in the fair value of biological assets, the Adjusted Gross Profit for the three and six months ended June 30, 2019 was $7.1 million and $8.9 million (2018 – $1.5 million and $1.8 million), respectively. the Adjusted Gross Margin for the three and six months ended June 30, 2019 was 56.0% and 36.2% (2018 – $13.8% and 9.0%), respectively.

Adjusted EBITDA& Adjusted EBITDA Margin

"Adjusted EBITDA" is a metric used by management which is net loss, as reported, before interest, provisions for income taxes, and adjusted for removing other non-cash or extraordinary non-recurring items, including depreciation and amortization, share-based compensation, non-cash provisions, the non-cash effects of accounting change in fair value of biological assets and derivative liabilities, and public company transition costs. "Adjusted EBITDA Margin" is Adjusted EBITDA as a percentage of reported revenue.

	Three months ended June 30, 2019	Three months ended June 30, 2018	**Six months ended June 30, 2019**	Six months ended June 30, 2018
	$	$	**$**	$
Net Loss	**(15,573,076)**	(4,793,596)	**(21,731,569)**	(8,797,499)
Adjusted for:				
Change in fair value of biological assets	**185,539**	(1,999,153)	**(144,763)**	(2,047,685)
Provision for tax penalties	**15,370,000**	-	**15,370,000**	-
Stock-based compensation	**1,536,716**	2,166,920	**2,582,398**	2,649,917
Share-based payments	**2,252,479**	-	**2,252,479**	-
Impairment loss	-	762,950	-	949,395
Depreciation and amortization	**283,274**	238,179	**566,953**	377,721
Interest expense	**1,933,935**	431,233	**4,777,234**	902,715
Fair value change in derivative liabilities	**(7,156,894)**	-	**(8,216,274)**	-
Non-recurring expenses related to RTO Transaction	**3,297,427**	-	**3,744,570**	-
Founders' separation costs	**348,101**	-	**696,201**	-
Income tax recovery	-	(73,652)	-	(63,252)
Adjusted EBITDA	**2,477,501**	(3,267,119)	**(102,771)**	(6,028,688)
Adjusted EBITDA Margin	**19.5%**	**-30.9%**	**-0.4%**	**-29.6%**

After adjusting for interest, provisions for income taxes, and adjusted for removing other non-cash or extraordinary non-recurring items, including depreciation and amortization, share-based compensation, non-cash provisions, the non-cash effects of accounting change in fair value of biological assets and derivative liabilities, and public company transition costs, the Adjusted EBITDA for the three and six months ended June 30, 2019 were an adjusted income of $2.5 million and an adjusted loss of $103k (2018 – loss of $3.3 million and $6.0 million), respectively. The Adjusted EBITDA Margin for the three and six months ended June 30, 2019 was 19.5% and a negative margin of 0.4% (2018 – negative margins of 30.9% and 29.6%), respectively.

Working Capital and Liquidity Outlook

The Company's primary need for liquidity is to fund working capital requirements of our business, capital expenditures, debt service and for general corporate purposes. The Company's primary source of liquidity is funds generated by operating activities. The Company also relies on private and/or public financing as a source of liquidity for short-term working capital needs and general corporate purposes. The Company's ability to fund operations, to make planned capital expenditures, to make scheduled debt payments and to repay or refinance indebtedness depends on our future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond our control.

As at June 30, 2019, the Company had total assets of $60,121,172, total liabilities of $40,868,305 and total shareholders' equity of $19,252,867. This compares to total assets of $40,799,033, total liabilities of $61,527,772 and a shareholders' deficiency of $20,728,739 as at December 31, 2018.

As at June 30, 2019, the Company had total current assets of $32,965,797 (December 31, 2018 – $28,215,219), including cash of $19,348,258 (December 31, 2018 – $17,000,008) to settle current liabilities of $14,297,562 (December 31, 2018 – $15,338,251), for a net working capital of $18,668,235 (December 31, 2018 – working capital of $12,876,968).

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

Related Party Transactions and Key Management Compensation

Key management personnel compensation

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

The remuneration of members of key management personnel during the six months ended June 30, 2019 and 2018 were as follows:

	Six months ended June 30, 2019	Six months ended June 30, 2018
	$	$
Management compensation	**1,796,072**	747,164
Professional fees	**9,500**	-
Stock-based compensation	**440,572**	657,436
	2,246,144	1,404,600

During the six months ended June 30, 2019, Steve DeAngelo, the former Chief Executive Officer ("CEO") and a former director of the Company, was paid management compensation of $490,330 (2018 – $185,400) for his services, including a bonus of $200,000 paid on the successful completion of the RTO Transaction. As at June 30, 2019, no balance was owed to the former CEO (December 31, 2018 – $nil).

During the six months ended June 30, 2019, Andrew Berman, the CEO and a Director of the Company, was paid management compensation of $442,306 (2018 – $119,231) for his employment services, including a bonus of $200,000 paid on the successful completion of the RTO Transaction. As at June 30, 2019, an amount of $3,005 (December 31, 2018 – $nil) owing to the CEO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the six months ended June 30, 2019, Derek Higgins, the former Chief Financial Officer ("CFO") of the Company, was paid management compensation of $340,769 (2018 – $155,000) for his employment services, including a bonus of $150,000 paid on the successful completion of the RTO Transaction. As at June 30, 2019, no balance was owed to the former CFO (December 31, 2018 – $nil).

During the six months ended June 30, 2019, Jack Nichols, the General Counsel and Secretary of the Company, was paid management compensation of $305,420 (2018 – $152,412) for his employment services, including a bonus of $150,000 paid on the successful completion of the RTO Transaction. As at June 30, 2019, an amount of $79 (December 31, 2018 – $nil) owing to the General Counsel and Secretary was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the six months ended June 30, 2019, Greg Sutton, the VP of Finance of the Company, was paid management compensation of $107,250 (2018 – $nil) for his consulting services. As at June 30, 2019, an amount of $9,013 (December 31, 2018 – $nil) owing to the VP of Finance was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the six months ended June 30, 2019, Menna Tesfatsion, the former COO of the Company, was paid management compensation of $109,997 (2018 – $nil) for his consulting services. As at June 30, 2019, an amount of $18,333 (December 31, 2018 – $nil) owing to the former COO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the six months ended June 30, 2018, a former Director of Marketing of the Company, was paid management compensation of $135,122 for his employment services.

Branson Corporate Services Ltd. ("Branson"), where Keith Li, the Chief Financial Officer ("CFO") of the Company is employed, provides for CFO services to Harborside, as well as other accounting and administrative services, which are included in professional fees. Branson is a company in which Adam Szweras, a director of the Company, hold a 15% ownership interest. From closing of the RTO Transaction up to the period ended June 30, 2019, the Company was charged $11,273 (2018 – $nil) for services provided by Branson. As at June 30, 2019, an amount of $12,952 (December 31, 2018 – $nil) owing to Branson was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

Other related party transactions

For the six months ended June 30, 2019, Aird & Berlis LLP ("Aird & Berlis"), a law firm in which Sherri Altshuler, a Director of the Company, is also a partner, charged $902,366 (2018 – $39,506) of legal services to the Company, which are included in professional fees. As at June 30, 2019, an amount of $150,836 (December 31, 2018 – $nil) owing to Aird & Berlis was included in accounts payable and accrued liabilities. The amount is unsecured, non-interest bearing and due on demand.

From closing of the RTO Transaction up to the period ended June 30, 2019, Fogler, Rubinoff LLP ("Foglers"), a law firm in which Mr. Szweras is also a partner, recorded a recovery of $1,773 (2018 – $nil) of legal services to the Company, which are included in professional fees. As at June 30, 2019, an amount of $20,419 (December 31, 2018 – $nil) owing to Foglers was included in accounts payable and accrued liabilities. The amount outstanding, primarily assumed by the Company on closing of the RTO Transaction, is unsecured, non-interest bearing and due on demand.

On May 30, 2019, the Company paid a stock success fee of CAD $2,925,622 to FMICAI which was satisfied by the issuance of 417,949 shares of Series D Common Stock of FLRish immediately prior to the completion of the RTO Transaction, which shares of Series D Common Stock were exchanged for 417,949 SVS of the Company on completion of the RTO Transaction. The SVS were valued at $2,166,967, based on the amount of stock success fee as per disclosed above, and were recorded as share-based payments in the unaudited condensed interim statements of loss and comprehensive loss. Peter Bilodeau, the Chairman and a Director of the Company, is also the President of FMICAI.

On May 30, 2019, the Company paid for M&A advisory fees to FMICAI by the issuance of 22,236 shares designated as SVS. The SVS were valued at $85,512, based on the Company's Concurrent Financing price, and were recorded as share-based payments in the unaudited condensed interim statements of loss and comprehensive loss.

Promissory note with related party

On November 16, 2018, FLRish issued a promissory note to Lineage with a principal amount of $1,515,266 bearing interest at a rate of 12% per annum. All principal and accrued interest is payable in a balloon payment due November 19, 2019. Upon completion of the RTO Transaction, the balance had been eliminated on consolidation.

Financial Instrument Risks

Financial instruments

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

	Classification
Cash	Amortized cost
Accounts receivable (excluding tax recoverable)	Amortized cost
Notes receivable	Amortized cost
Deposits	Amortized cost
Investments and advances	Amortized cost / FVTPL
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost
Notes payable	Amortized cost
Derivative liabilities	FVTPL

Fair value hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at June 30, 2019, the Company does not have any financial instruments measured at fair value after initial recognition, except for cash included at Level 1, the derivative liabilities which were calculated using Level 2 inputs and investments classified at Level 3 where the fair value was determined based on implied enterprise value of the investee by referring to values of comparable entities, as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Cash	19,348,258	-	-	19,348,258
Investment	-	-	238,128	238,128
Derivative liabilities	-	9,493,851	-	9,493,851
	19,348,258	**9,493,851**	**238,128**	**29,080,237**

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 on an ongoing basis its capital requirements. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities.

As at June 30, 2019, the Company had a cash balance of $19,348,258 (December 31, 2018 – $17,000,008) to settle current liabilities of $14,297,562 (December 31, 2018 – $15,338,251).

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

As at June 30, 2019, the Company had the following contractual obligations:

	Less than 1 year	**1 to 3 years**	**3 to 5 years**	**Total**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	13,628,521	-	-	13,628,521
Notes payable	380,623	-	-	380,623
Derivative liabilities	118,499	-	-	118,499
Convertible notes payable	-	783,566	-	783,566
Options derivative liabilities	-	278,817	-	278,817
Warrant derivative liabilities	-	9,215,034	-	9,215,034
Lease payable	42,328	110,727	87,766	240,821
	14,169,971	**10,388,144**	**87,766**	**24,645,881**

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

Foreign exchange risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not subject to any interest rate volatility as its notes payable and convertible notes are carried at a fixed interest rate throughout their term. The Company considers interest rate risk to be immaterial.

Market risk

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

Asset forfeiture risk

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

Banking risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in US federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that US federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry.

Consequently, businesses involved in the marijuana industry often have difficulty accessing the US banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the clients and leaves their cash holdings vulnerable.

Capital Management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures 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 debts, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. The Board of Directors of the Company does not establish quantitative return on capital criteria for management, but rather relies on the management team's expertise to sustain future development of the business.

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

(i) minimizing discretionary disbursements;
(ii) reducing or eliminating exploration expenditures which are of limited strategic value; and
(iii) exploring alternate sources of liquidity.

As at June 30, 2019, the Company's capital consists of share capital, contributed surplus, reserves in warrants, accumulated other comprehensive income and accumulated deficit, in the amount of $19,252,867 (December 31, 2018 – deficit of $20,728,739).

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 changes to the Company's capital management approach during the six months ended June 30, 2019 and the year ended December 31, 2018.

Significant Accounting Judgments and Estimates

The preparation of the Company's unaudited condensed interim consolidated financial statements in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made as appropriate in the period they become known. Items for which actual results may differ materially from these estimates are described as follows:

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.

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 on 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. 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.

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.

Fair value of biological assets and inventories

Determination of the fair value of biological assets and the agricultural produce 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 the 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 judgements related to the valuation of biological assets are also applicable for inventories. Significant assumptions used in determining the fair value of cannabis plants also include:

- Wastage of plants based on various stages;
- Costs incurred and costs at different stages in the growing cycle of the plants were estimated by calculating an average of total growing costs over the total production period;
- Expected yields for cannabis on plants to be harvested, by strain of plant; and
- Percentage of costs incurred as a percent of total cost was applied to the total fair value per gram, which is determined based on market prices of cannabis.

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 the inventories. The Company must also determine if the cost of any inventories exceeds its net realizable value, such as cases where prices have decreased, or inventories had spoiled or otherwise been damaged.

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities on the unaudited condensed interim consolidated statements of financial position that cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Judgments include, but are not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization, if applicable, and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Licenses and trade names have an indefinite useful life and are tested for impairment annually.

Determination of cash generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped at the lowest levels for which there are largely independent cash inflows. The Company determines which groups of assets (each a "Cash-Generating Unit or a "CGU") can generate cash flows that are largely independent of other operations within the Company. Management exercises judgment in assessing where active markets exist including an analysis of the degree of autonomy each operation has in negotiating prices with customers. The Company has identified each retail dispensary as a separate CGU, based on the nature of the business and the assessment that the CGUs generate cash flows that are largely independent of the cash flows from other assets deployed in the Company.

Impairment

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

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the CGU to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Income taxes

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

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

Share-based payment transactions and warrants

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

Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECL") for all debt financial assets not held at fair value through profit or loss ("FVTPL") requires management to make assumptions about the historical patterns for the probability of default, the 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.

Derivative liabilities

The conversion feature and the warrants component of convertible debentures and convertible note payable, and options 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 change in foreign exchange rate. 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 note payable, and options 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.

Summary of Significant Accounting Policies

The accounting policies applied in the Company's unaudited condensed interim consolidated financial statements are the same as those noted in FLRish's audited consolidated financial statements for the year ended December 31, 2018, and in Lineage's audited consolidated financial statements for the year ended January 31, 2019, unless otherwise noted below. The following is a summary of some of the more significant accounting policies applied by the Company:

Revenue with Customers

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

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

Revenue is recognized at the fair value of consideration received. Net revenue from sale of goods, as presented in the unaudited condensed interim consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less expected price discounts.

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

Inventories

Inventories are measured at the lower of cost and net realizable value. The Company measures inventory cost using the weighted average method.

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

Biological Assets

The Company's biological assets consist of cannabis plants. These biological assets are measured at fair value less costs to sell and costs to complete. At the point of harvest, the biological assets are transferred to inventories at their fair value less costs to sell and costs to complete. All direct and indirect costs related to biological assets are capitalized as they are incurred, and expensed when the related item is sold.

While the Company's biological assets are within the scope of IAS 41 – Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 –Inventories. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labor for individuals involved in the growing and quality control process is also included, as well as overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item 'cost of goods sold' in the period that the related product is sold. Unrealized fair value changes on growth of biological assets are recorded profit or loss. Biological assets are measured at their fair value less costs to sell on the unaudited condensed interim consolidated statements of financial position.

Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

<u>Classification</u>

The Company classifies its financial assets and financial liabilities in the following measurement categories: (a) those to be measured subsequently at FVTPL; (b) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and (c) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss.

The Company reclassifies financial assets when its business model for managing those assets changes. Financial liabilities are not reclassified.

<u>Amortized cost</u>

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest ("SPPI") criterion. Financial asset classified in this category are measured at amortized cost using the effective interest method.

<u>Expected credit loss impairment model</u>

IFRS 9 – Financial Instruments introduced a single ECL impairment model, which is based on changes in credit quality since initial application. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default 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.

Fair value through profit or loss

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income (loss).

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (loss) (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income (loss).

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

	Classification	**Measurement**
Cash	Amortized cost	Amortized cost
Accounts receivable (excluding tax recoverable)	Amortized cost	Amortized cost
Notes receivable	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Investments and advances	Amortized cost / FVTPL	Amortized cost / FVTPL
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost
Notes payable	Amortized cost	Amortized cost
Derivative liabilities	FVTPL	FVTPL

Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life, amortization method, and residual values are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or CGUs which are expected to benefit from the synergies of the combination.

Goodwill has an indefinite useful life that is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment on goodwill is determined by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any impairment loss for goodwill is recognized directly in profit or loss and any impairment loss recognized for goodwill is not reversed in subsequent periods.

Provisions

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

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

Adoption of New Accounting Policies

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

IFRS 16 – Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset ("RUA") and a lease liability. The RUA is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the RUA at cost less accumulated amortization and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease.

The Company has applied IFRS 16 with an initial application date of January 1, 2019, in accordance with the transitional provisions specified in IFRS 16. The Company is applying the simplified transition approach and is currently finalizing the quantitative impact on adoption of IFRS 16 on its existing lease obligations.

IFRIC 23 – Uncertainty Over Income Tax Treatments ("IFRIC 23")

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The IFRS Interpretations Committee ("IFRIC") concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. On adoption of IFRIC 23, the Company had assessed that there was no material impact on its unaudited condensed interim consolidated financial statements.

Recent Accounting Pronouncements

At the date of authorization of these unaudited condensed interim consolidated financial statements, the IASB and IFRIC had issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after January 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The Company is currently assessing the impact of adopting the new standards or amendments will have on the Company's unaudited condensed interim consolidated financial statements. No material impact is expected upon the adoption of the following new standards:

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

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

Business Combination

On May 30, 2019, Lineage and FLRish completed the RTO Transaction, resulting in the former shareholders of FLRish holding a majority of the outstanding share capital of the resulting issuer. The substance of the RTO Transaction is a reverse acquisition, such that the RTO Transaction has been accounted for as a capital transaction with FLRish being identified as the acquirer and the equity consideration being measured at fair value, using the acquisition method of accounting. The RTO Transaction has been accounted for in the Q2 2019 Interim Financial Statements as a continuation of the financial statements of FLRish, together with a deemed issuance of securities equivalent to the shares held by the former shareholders of Lineage.

The following table sets forth a preliminary allocation of the purchase price to the assets acquired, based on a preliminary estimate of fair value. Final valuations of assets and liabilities are not yet complete due to the timing of the RTO Transaction and the inherent complexity associated with the valuations. The preliminary allocation is subject to adjustment.

Purchase Price Allocation

Purchase Price Consideration Paid	
	$
Fair value of SVS issued (i)	**6,988,882**
Fair value of options issued (ii)	**293,154**
Fair value of warrants issued (iii)	**67,985**
	7,350,021

Net Identifiable Assets Acquired	
	$
Cash	**210,143**
Accounts receivable	**61,243**
Inventories	**84,101**
Prepaid expenses	**19,544**
Investments and advances	**2,302,742**
Right-of-use assets	**435,049**
Intangible assets	**1,081,742**
Liabilities assumed	**(699,758)**
Derivative liabilities	**(123,594)**
Other debts assumed	**(2,778,033)**
Income tax payable	**(39,727)**

Deferred tax liability	**(117,015)**
Total net identifiable assets acquired	**436,437**
Goodwill	**6,913,584**

The Company determined that the RTO Transaction was a business combination in accordance to the definition of IFRS 3 – Business Combination, and as such, has accounted for it in accordance with this standard, with FLRish being the accounting acquirer on the acquisition date of May 30, 2019. Consideration consisted entirely of shares, options and warrants of the Company which were measured at the estimated fair value on the date of closing of the RTO Transaction:

(i) The fair value of the 1,817,109 SVS, issued to former Lineage shareholders, was determined to be $6,988,882, based on the fair value of shares issued through the Concurrent Financing on May 17, 2019.

(ii) The estimated fair value of the 134,232 post-Consolidation options issued as consideration are based on the Black-Scholes valuation model with the following assumptions: implied share price – CAD $5.19 per share, Consolidation-adjusted exercise price of CAD $4.18 to $10.45, expected dividend yield – 0%, expected volatility – 90%, risk-free interest rate – 1.47% to 1.52% and expected life of 2.54 to 4.55 years. In making the assumptions for expected volatility, the Company used the estimated average volatility of the cannabis industry. As the exercise price of these options are denominated in CAD, these options are accounted for as derivative liabilities as their fair value is affected by changes in foreign exchange rate.

(iii) The estimated fair value of the 308,662 post-Consolidation warrants issued as consideration are based on the Black-Scholes valuation model with the following assumptions: implied share price – CAD $5.19 per share, Consolidation-adjusted exercise price of CAD $10.45 to $13.59, expected dividend yield – 0%, expected volatility – 90%, risk-free interest rate – 1.71% and an expected life of 0.65 to 0.72 years. In making the assumptions for expected volatility, the Company used the estimated average volatility of the cannabis industry. As the exercise price of these warrants are denominated in CAD, these warrants are accounted for as derivative liabilities as their fair value is affected by changes in foreign exchange rate.

Goodwill of $6,913,584, which is not tax deductible, was recognized due to the expected synergies from combining the operations of Lineage and FLRish.

Proposed Transactions

Altai Partners, LLC

On March 28, 2018, Lineage entered into a binding LOI to acquire a 100% interest in Altai, a limited liability company operating out of California. Altai had an agreement in place, dated March 15, 2018, to acquire a 45% interest in LUX, a licensed dispensary operating in San Jose.

On March 28, 2018, Altai entered into an additional agreement to acquire the remaining 55% ownership interest in LUX. Accordingly, the Company will acquire an indirect 100% ownership interest in LUX through its purchase of a 100% interest in Altai. The purchase price for the Altai Acquisition is $5,400,000, payable on or prior to closing, comprised of:

(a) $1,950,000 payable in cash; and

(b) $3,450,000 payable by the issuance of SVS shares in the capital of the Company.

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

(c) $750,000 will be lent to Altai under promissory notes bearing at 12% annual interest. The promissory notes will become loans to subsidiary after completion of the Altai Acquisition; and

(d) The Company, under its ownership of Altai, will assume $1,200,000 in payment obligations towards Altai's purchase of LUX. This obligation includes four (4) cash payments to LUX shareholders of $300,000 each.

As at June 30, 2019, the Company had advanced total funds of $1.80 million to Altai, comprised of:

(i) Total advances of $1,050,000; and

(ii) Funds of $750,000 in the form of two (2) promissory notes, issued at $250,000 and $500,000, respectively. These promissory notes will become a loan to subsidiary after completion of the Altai Acquisition. Should the Altai Acquisition not ultimately close, the advances will be repaid to the Company.

As at June 30, 2019, the total advances made to Altai, including accrued interest on the promissory notes, were recorded at an amortized cost of $1,722,805.

Completion of the Altai Acquisition is subject to satisfactory completion of due diligence, execution of a definitive agreement, required approvals and consents, as well as the completion of Altai's acquisition of 100% ownership interest in LUX.

Walnut Oaks, LLC

On June 12, 2018, Lineage entered into the Term Sheet to acquire Agris Farms. Agris Farms operates a craft cannabis cultivation facility in Yolo County in Northern California. Pursuant to the Term Sheet, the Company would acquire a 51% interest in Agris Farms based on an implied enterprise value of $6,600,000. Consideration would be in the form of shares and the assumption of liabilities. The Company would have an option to acquire the remaining 49% of Agris Farm within six months from closing for share consideration.

On November 20, 2018, the Company, through Lineage GCL California, entered into the Agris Agreement to acquire a 100% ownership interest in Agris Farm. The Agris Agreement superseded the Term Sheet in its entirety.
The aggregate purchase price payable under the Agris Acquisition is $6,600,000 payable on closing, comprised of:

(a) An amount of $2,148,880 payable on closing by the issuance of the Company's SVS at a price of CAD $6.90 per SVS and/or MVS at a price of CAD $690.00 per MVS;

(b) The assumption of liabilities in the aggregate amount of $2,951,120 which is to be settled as follows:

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

  (ii) $1,000,000 convertible on closing, into the Company's SVS at a price of CAD $6.90 per SVS and/or MVS at a price of CAD $690.00 per MVS; and

  (iii) 1,500,000 which, on closing, the Company will assume as a subordinate note owing to a third-party lender who will be granted a put option by Harborside in favor of the holder where the note holder can choose to convert the subordinate note into 251,087 units of one SVS and one half of a warrant to acquire SVS at a conversion price of CAD $7.945 per unit with the full warrant exercisable into a SVS at an exercise price of CAD $10.45 (or 2,510 units of one MVS and one half of a warrant to acquire MVS at a conversion price of CAD $794.50 per unit with the full warrant exercisable into a MVS at an exercise price of CAD $1,045.00) On closing, the third-party will have a general security interest over all assets of Walnut Oaks.

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

The sellers may also be entitled to receive an additional earn-out payment equal to six times of any EBITDA in excess of $1.1 million.

As at June 30, 2019, the total investments made to Walnut Oaks were recorded at a fair value of $238,128.

Closing of the Agris Acquisition is subject to various conditions, including the approval of Yolo County for the transfer of cultivation license, and required approvals and consents.

Issued and Outstanding Share Capital

As at June 30, 2019, the Company had the following securities issued and outstanding:

Designation of Securities	Number of Underlying SVS
Subordinate Voting Shares	15,848,349
Multiple Voting Shares	26,078,565
Series B Special Shares	275,325
Series C Special Shares	336,508
Options	5,372,357
Warrants	7,104,767
Broker Warrants	464,485
Convertible Debts	72,696
Shares issuable to vendors in Altai Acquisition	430,315
Shares issuable to finders in Altai Acquisition	20,046
Shares issuable to vendors in Agris Acquisition	606,958
Convertible Debt for assumption of Agris Acquisition	251,087
Warrants issuable for Agris Acquisition	221,920
Shares issuable to FMICA as advisory fee	118,543
Total Fully Diluted Share Capital	**57,201,921**

As at August 29, 2019, the Company had the following securities issued and outstanding:

Designation of Securities	Number of Underlying SVS
Subordinate Voting Shares	18,125,801
Multiple Voting Shares	23,821,910
Series B Special Shares	275,325
Series C Special Shares	336,508
Options	5,351,560
Warrants	7,104,767
Broker Warrants	464,485
Convertible Debts	72,696
Shares issuable to vendors in Altai Acquisition	430,315
Shares issuable to finders in Altai Acquisition	20,046
Shares issuable to vendors in Agris Acquisition	606,958
Convertible Debt for assumption of Agris Acquisition	251,087
Warrants issuable for Agris Acquisition	221,920
Shares issuable to FMICA as advisory fee	118,543
Total Fully Diluted Share Capital	**57,201,921**

Commitments and Contingencies

Lease commitments

The Company entered into two (2) lease agreements for the cannabis retail dispensaries located in Portland and Eugene. As at June 30, 2019, the Company is committed to minimum annual lease payments for its two (2) Oregon dispensaries locations as follows:

	Total	Within 1 year	1 to 3 years	3 to 5 years	Beyond 5 years
	$	$	$	$	$
Lease obligations	701,026	92,788	194,010	143,597	270,631

The Company also leases its cultivation facilities under an escalating lease commencing in July 2017 and expiring in July 2026. For the six months ended June 30, 2019, rent expense totaled $452,300 and $204,300, respectively. As at June 30, 2019 and December 31, 2018, the Company recorded a deferred rent liability in the amount of $174,800 and $129,200, respectively to adjust the lease obligation to straight-line amortization. The deferred rent is classified as a long-term liability as the deferral will be reversed in periods beyond 2018.

Future minimum rental payments due from the Company under the lease of its cultivation facilities are as follows:

	Total	Within 1 year	1 to 3 years	3 to 5 years	Beyond 5 years
	$	$	$	$	$
Lease obligations	7,017,900	817,200	1,763,039	1,854,338	2,583,323

Legal claims

The Company may, from time to time, be subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. Contingent liabilities associated with legal proceedings are recorded when a liability is probable, and the contingent liability amount can be reasonably estimated.

In May 2018, a former CEO of the Company, Jeff Brothers ("Brothers") issued a demand for arbitration to Harborside, which has asserted its own claims against the former employee. Following mediation between the parties, the former CEO will be allowed to exercise his right to purchase 625,000 SVS of the Company pursuant to the terms of Brothers' stock option agreement dated August 1, 2016. In addition, the Company agreed to pay Brothers $125,000 for previously identified expenses.

In June 2018, an employee asserted claims against the Company alleging six (6) causes of action including: (i) discrimination on the basis of sex, race, and/or age, (ii) failure to prevent discrimination, (iii) retaliation for reporting harassment, (iv) hostile work environment harassment, (v) defamation, and (vi) wrongful termination in violation of public policy. The claim is in the discovery phase and is set for trial November 18, 2019.

In August 2018, an employee asserted harassment claims against the Company. In October 2018, the parties have agreed to settle the matter for $300,000 to be paid on a payment schedule ending December 2019. As at June 30, 2019, $179,000 remained unpaid and was included in accounts payable and accrued liabilities.

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.

On January 8, 2019, a 50% shareholder of PMACC received a severance package of $600,000 to be paid over 24 months.

TSE Agreement

TSE Consulting, LLC ("TSE") provides cultivation management services to the Company as a contractor pursuant to the cultivation consulting agreement executed on February 24, 2018, between TSE and Savature Inc. TSE is paid a base rate of $100,000 per month, which covers employment of onsite staff by TSE as well as performance-based compensation varying from 2.5% to 3.75% of wholesale gross revenue and potential compensation for genetics developed by TSE. The agreement terminates on June 30, 2020.

Airfield Transaction

On April 23, 2019, a wholly-owned subsidiary of FLRish entered into a definitive stock purchase agreement with Airfield and its owner pursuant to which, among other things, it would acquire 100% of the outstanding capital stock of Airfield. Closing of the Airfield Transaction is conditional, among other things, on receipt of all required regulatory, director and shareholder approvals, execution of definitive agreements and certain other conditions that are customary for transactions of this nature.

On August 29, 2019, management determined that the Company would not proceed with the transactions contemplated by the Airfield Agreement, in light of management's assessment of the maturity and further growth prospects of Airfield's retail assets as well as the substantial cash component of the purchase price which management, in its experience, has determined is not in line with current market trends.

San Leandro

On August 6, 2019, the Company and SLWS (the "Parties") met with legal counsel to mediate a disagreement that had arisen around the Parties' respective financial advancements to the San Leandro project and to align on project oversight moving forward. At the mediation, the Parties agreed to resolve their differences by converting money advanced since inception of the project into loans, the terms of which remain to be finalized. In addition, the parties agreed to appoint to the board of the joint venture, two (2) directors from each partner and to appoint a fifth director who will be mutually chosen and agreed upon by the Parties. While the Company would like to amicably resolve all open items, but as noted above, these resolutions have not been finalized and there is risk that the joint venture partners will be unable to reach agreement on these matters, at which time the Company may use available legal remedies to advance its position.

Provisions

PMACC

PMACC is currently involved in three (3) US Tax Court cases, which were consolidated for trial and briefing. Each of these cases involve the same legal issue – the application of IRC Section 280E to the Company's business. Certain Tax Court precedent allows for an allocation between expenses that are directly related to "trafficking" in a controlled substance and expenses that are not. The Internal Revenue Service (the "IRS") accepted that the figures on the returns were substantiated and accurate, but nevertheless sought a complete disallowance of all expenses under 280E. The cases cover the corporate income tax returns for the fiscal years ended: July 31, 2007, July 31, 2008, July 31, 2009, July 31, 2010, July 31, 2011, and July 31, 2012.

Through deficiency notices, the IRS asserted that PMACC is liable for a tax deficiency for each of these tax years. In addition, the IRS sought to impose negligence penalties pursuant to IRC Section 6661(a) for each tax year. The Company filed petitions contesting the IRS's findings and challenging the applicability of 280E to its operations. The cases were tried before the US Tax Court in June of 2016, and post-trial and reply briefs were submitted in January of 2017.

On November 30, 2018, the US Tax Court ruled that Section 280E applies to any business which consists of trafficking in a controlled substance, and such businesses may not deduct their ordinary and necessary business expenses.

Based on pre-trial stipulations pertaining to the above-referenced cases, the IRS has calculated the Company's liability for the above-referenced cases and the tax periods referenced above to be approximately $11 million (excluding interest as the Tax Court has declined to impose any penalties). As at June 30, 2019, the Company had recorded a one-time provision of $11 million in relation to the tax rulings (December 31, 2018 – $nil).

As management disagrees with the liability in its entirety, the Company fully intends to appeal this ruling to the Ninth Circuit Court of Appeals. Given the wide range of possible outcomes in these cases, any estimate as the Company's ultimate liability is an estimate only without prejudicing the Company's rights on appeal or rights to further negotiations with the IRS. However, notwithstanding the foregoing, and for informational purposes only and not for any other purposes including any admission or consent to any liability with respect to the foregoing cases, as at June 30, 2019, the Company has recorded a provision of $11 million with respect to the above rulings.

San Jose Wellness

SJW was involved in two (2) pending tax court cases, which both involve the application of 280E. Certain Tax Court precedent allows for an allocation between expenses that are directly related to "trafficking" in a controlled substance and expenses that are not. The IRS accepted that the figures on the returns were substantiated and accurate, but nevertheless seeks a complete disallowance of all expenses under 280E. The cases cover the 2010, 2011, and 2012 corporate income tax returns. Through deficiency notices, the IRS has asserted that the Company is liable for a tax deficiency totaling $2,120,215 for these periods. The Company has filed petitions to contest the applicability of 280E to its operations.

The SJW cases were stayed before the US Tax Court pending the outcome of the above-described tax cases involving PMACC. The Company estimates that the deficiencies in tax and penalties asserted by the IRS, not including interest calculations, are approximately $4.37 million. As at June 30, 2019, the Company had recorded a one-time provision of $4.37 million in relation to the tax rulings on SJW (December 31, 2018 – $nil).

However, as stated above, management disagrees with the liability in its entirety, and the Company fully intends to appeal this ruling to the Ninth Circuit Court of Appeals, and nothing in these financial statements should in any way be construed as an admission of liability of kind with respect to the foregoing. Given the wide range of possible outcomes in these cases, any estimate as the Company's ultimate liability is an estimate only without prejudicing the Company's rights on appeal or rights to further negotiations with the IRS.

Off-Balance Sheet Arrangements

As at June 30, 2019 and the date of this MD&A, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company.

Subsequent Events

Subsequent to June 30, 2019, the Company closed the acquisition of a 100% ownership interest in PMACC pursuant to the Merger Option Agreement. As a result of the exercise of this Merger Option to acquire PMACC, Harborside also acquired, indirectly, a 50% ownership interest in SLWS, which owns the entitlement on a retail dispensary located in San Leandro, California.

In July, 2019, Peter Bilodeau, Chairman of the Company, exercised options to purchase 5,797 SVS for a total exercise price of CAD $40,000 (with such amount having been issued to him as a bonus payable by the Company upon the closing of the RTO Transaction in accordance with a letter agreement dated December 11, 2018).

In August 2019, additional options to purchase 15,000 SVS for a total aggregate exercise price of $7,250, were exercised by various option holders of the Company.

On August 29, 2019, management determined that the Company does not expect to proceed with the Agris Acquisition as contemplated by the Agris Agreement, in light of the principal owner's demand for an increase in the purchase price and other terms which in management's judgment make the transaction not in furtherance of the Company's goals or strategy or otherwise in the interests of the Company's shareholders, and given the Company's already substantial capacity to produce high-quality cannabis at its Salinas facility at significant scale. The Company expressly reserves in all respects all rights it has or may have under the Agris Agreement.

On August 29, 2019, management determined that the Company would not proceed with the transactions contemplated by the stock purchase agreement among FLRish Retail Management & Security Services LLC and Airfield Supply Co., Inc. and its owner, in light of the Company's current share price and the substantial cash component of the purchase price which management has determined is not in the best interests of shareholders.

Risk Factors

The Company faces exposure to risk factors and uncertainties relating to its business that could significantly negatively impact the Company's operations and financial results. Additional risks and uncertainties not presently known to the Company or currently deemed immaterial by the Company may also impair the Company's operations. If any such risks actually occur, shareholders of the Company could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Company could also be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected. Significant business risk factors related to the business of the Company as at June 30, 2019 are consistent with the business risk factors described in detail in the Company's Listing Statement dated May 30, 2019 which is available on SEDAR (www.sedar.com).

The following is a summary of risk factors that could be applicable to the business of the Company:

US Federal Law on Marijuana Industry

Marijuana is illegal under US federal laws and enforcement of relevant laws is a significant risk. Therefore, the business operations of the Company are dependent on State laws pertaining to the marijuana industry. Continued development of the marijuana industry is dependent upon continued legislative authorization of marijuana at the State level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of marijuana, which would negatively impact the business of the Company.

The concepts of "medical marijuana" and "retail marijuana" do not exist under US federal law. The FCSA classifies "marijuana" as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under US federal law. Strict compliance with State laws with respect to marijuana will neither absolve the Company of liability under US federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company.

Violations of any US federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the US federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect, and as a result the Company, including their reputation and ability to conduct business, their holdings (directly or indirectly) of medical cannabis licenses in the US, and the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of their publicly-traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

As of the date of this MD&A, 33 States, the District of Columbia and Guam allow their residents to use medical marijuana. Voters in the States of Colorado, Washington, Oregon, Alaska, California, Nevada, Massachusetts, and Maine have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The State laws are in conflict with the FCSA, which makes marijuana use and possession illegal on a national level. The Obama administration has made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by State-designated laws allowing the use and distribution of medical marijuana. However, there is no guarantee that the Trump administration will not change the government's stated policy regarding the low-priority enforcement of federal laws and decide to enforce the federal laws to the fullest extent possible. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to the Company and its stockholders, including the potential exposure to criminal liability.

The constant evolution of laws and regulations affecting the marijuana industry could detrimentally affect the Company's operations. Local, State and federal medical marijuana laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Company.

Local, State and Federal laws in the US

The rulemaking process for cannabis operators at the state level in any state will be ongoing and result in frequent changes. As a result, a compliance program is essential to manage regulatory risk. All operating policies and procedures implemented in the operation will be compliance-based and derived from the state regulatory structure governing ancillary cannabis businesses and their relationships to state-licensed or permitted cannabis operators, if any. Notwithstanding the Company's efforts, regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that the Company will receive the requisite licenses, permits or cards to operate its businesses.

In addition, local laws and ordinances could restrict the Company's business activity. Although legal under the laws of the states in which the Company's business will operate, local governments have the ability to limit, restrict, and ban cannabis businesses from operating within their jurisdiction. Land use, zoning, local ordinances, and similar laws could be adopted or changed, and have a material adverse effect on the Company's business.

The Company is aware that multiple states are considering special taxes or fees on businesses in the marijuana industry. It is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. This could have a material adverse effect upon the Company's business, results of operations, financial condition or prospects.

Legality of cannabis could be reversed in one or more states of operation

The voters or legislatures of states in which cannabis has been legalized could potentially repeal applicable laws which permit both the operation of medical and retail cannabis businesses. These actions might force the Company to cease some or all of the Company's business.

If no additional states, US territories or countries allow the legal use of cannabis, or if one (1) or more jurisdictions which currently allow it were to reverse position, the Company may not be able to grow, or the market for the Company's products and services may decline. There can be no assurance that the number of jurisdictions which allow the use of cannabis will grow, and if it does not, there can be no assurance that the existing jurisdictions will not reverse position and disallow such use. If either of these events were to occur, not only would the growth of the Company's business be materially impacted in an adverse manner, but the Company may experience declining revenue as the market for the Company's products and services declines.

Local regulation could change and negatively impact on the Company's operations

Most US States that permit marijuana for adult-use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult-use marijuana businesses in their jurisdictions. If local municipalities where the Company or its Licensed Operators have established facilities decide to prohibit marijuana businesses from operating, the Company or its Licensed Operators could be forced to relocate operations at great cost to the Company, and the Company or its Licensed Operators may have to cease operations in such State entirely if alternative facilities cannot be secured.

Regulation that may hinder the Company's ability to establish and maintain bank accounts

The US federal prohibitions on the sale of marijuana may result in Licensed Operators being restricted from accessing the US banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. While the Company does not anticipate dealing with banking restrictions directly relating to its business, banking restrictions could nevertheless be imposed due to the Company's banking institutions not accepting payments from Licensed Operators. Licensed Operators at times do not have deposit services and are at risk that any bank accounts they have could be closed at any time. Such risks increase costs to the Company and Licensed Operators. Additionally, similar risks are associated with large amounts of cash at these businesses. These businesses require heavy security with respect to holding and transport of cash, whether or not they have bank accounts.

In the event that financial service providers do not accept accounts or transactions related to the marijuana industry, it is possible that Licensed Operators may seek alternative payment solutions, including but not limited to crypto currencies such as Bitcoin. There are risks inherent in crypto currencies, most notably its volatility and security issues.

If the industry was to move towards alternative payment solutions and accept payments in crypto currency the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

Lack of access to US Bankruptcy Protections

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company was to experience a bankruptcy, there is no guarantee that US federal bankruptcy protections would be available to the Company's US operations, which would have a material adverse effect on the Company, its lenders and other stakeholders.

Heightened scrutiny by Canadian regulatory authorities

The Company's existing operations in the US, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate or invest in the US or any other jurisdiction, in addition to those described herein.

It had been reported in Canada that the Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the US. CDS is Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the US, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the CSA and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSXV. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the US. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the US. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented at a time when the Subordinate Voting Shares are listed on a stock exchange, it would have a material adverse effect on the ability of holders of Subordinate Voting Shares to make and settle trades. In particular, the Subordinate Voting Shares would become highly illiquid until an alternative was implemented, investors would have no ability to effect a trade of the Subordinate Voting Shares through the facilities of the applicable stock exchange.

Regulatory scrutiny of the Company's interests in the US

For the reasons set forth above, the Company's interests in the US cannabis market, and future licensing arrangements, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to carry on its business in the US.

US border crossing

Investors in the Company and the Company's directors, officers and employees may be subject to travel and entry bans into the US. Recent media articles have reported that certain Canadian citizens have been rejected for entry into the US due to their involvement in the marijuana sector.

The majority of persons travelling across the Canadian and US border do so without incident, whereas some persons are simply barred entry one time. The US Department of State and the Department of Homeland Security have indicated that the US has not changed its admission requirements in response to the pending legalization in Canada of recreational cannabis, but anecdotal evidence indicates that the US may be increasing its scrutiny of travelers and their cannabis related involvement.

Admissibility to the US may be denied to any person working or 'having involvement in' the marijuana industry, according to US Customs and Border Protection. Inadmissibility in the US implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver.

There are risks associated with removal of US Federal Budget Rider Protections

The US Congress has passed appropriations bills (the "Leahy Amendment") each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating compliance with state and local laws. The 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the Leahy Amendment. It will continue in effect until September 30, 2018, the last day of fiscal year 2018. These protections were subsequently extended through December 21, 2018 as part of a short-term continuation of appropriations. Following the much-publicized shutdown of the US Federal Government, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with the Joyce Amendment intact (Section 538). As it stands, the Joyce Amendment will provide the medical marijuana industry with protection against federal prosecution until September 30, 2019.

American courts have construed these appropriation bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business-even those that have fully complied with state law-could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

Additional financing

The Company believes that its raised capital is sufficient to meet its presently anticipated working capital and capital expenditure requirements for the near future. This belief is based on its operating plan which, in turn, is based on assumptions, which may prove to be incorrect. In addition, the Company may need to raise significant additional funds sooner to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated opportunities. If its financial resources are insufficient, it will require additional financing to meet its plans for expansion. The Company cannot be sure that this additional financing, if needed, will be available on acceptable terms or at all. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility with respect to business matters. If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, such shareholders may experience additional dilution in net book value, and such equity securities may have rights, preferences or privileges senior to those of its existing shareholders. If adequate funds are not available on acceptable terms or at all, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities, repay debt obligations as they become due, or respond to competitive pressures, any of which could have a material adverse effect on its business, prospects, financial condition, and results of operations.

Volatile global financial and economic conditions

Current global financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain financing in the future on favorable terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility, market turmoil and the global recession continue, the Company's operations and financial condition could be adversely impacted.

Unfavorable tax treatment of cannabis businesses

Under Section 280E ("Section 280E") of the US Tax Code no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the FCSA) which is prohibited by Federal law or the law of any state in which such trade or business is conducted." This provision has been applied by the US IRS to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its U.S. income tax expenses.

Entities with which the Company does business, including entities owned, controlled or managed by the Company, may from time to time be disputing and in litigation with the IRS related to an IRS determination that certain expenses of cannabis businesses are not permitted tax deductions under section 280E of the US Tax Code. Although the status of a service provider is unclear with respect to 280E it is possible that the Company could be found to have significant tax liabilities that may become due and payable to the IRS. The Company may not have sufficient reserves to satisfy any possible future judgments. A judgement, therefore, would likely result in material adverse effects to the Company's business operations and financial condition.

If the Company's overall business is deemed to be subject to Section 280E of the US Tax Code because of the business activities of the companies over which we exercise control, the resulting disallowance of tax deductions could cause us to incur US federal income tax, which would have a material adverse effect on the Company's business

Section 280E of the US Tax Code provides that, with respect to any taxpayer, no deduction or credit is allowed for expenses incurred during a taxable year "in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the FCSA which is prohibited by federal law or the law of any state in which such trade or business is conducted." Because cannabis is a Schedule I controlled substance under the FCSA, Section 280E by its terms applies to the purchase and sale of medical-use cannabis products. Although the Company will not be engaged in the purchase, sale, growth, cultivation, harvesting, or processing of medical-use cannabis products, we will exercise control over, and intend to acquire, companies who engage in such activities, and therefore these companies will likely be subject to Section 280E.

With respect to Harborside Oakland and Harborside San Jose, the IRS has taken the position that Section 280E prohibits both such entities from taking certain expense deductions. Each entity is disputing the application of Section 280E to its business with the IRS. If the IRS were to take the position that, through our business operations and in particular control of this company, the Company is primarily or vicariously liable under federal law for "trafficking" a Schedule I substance (cannabis) under section 280E of the US Tax Code or for any other violations of the CSA, the IRS may seek to apply the provisions of Section 280E to our company and disallow certain tax deductions, including for employee salaries, depreciation or interest expense. If such tax deductions are disallowed, this would result in a material adverse effect to our financial results. As the Company may become engaged in the purchase and/or sale of a controlled substance through the operations of subsidiaries which they may acquire that are operating dispensaries and a cultivation facility, its potential subsidiaries may be subject to the disallowance provisions of Section 280E. In addition, there is no assurance that the IRS will not take a position that the entire business is subject to Section 280E limitations in the future.

US tax classification

The Company, which is a Canadian corporation, generally would be classified as a non-United States corporation under general rules of US federal income taxation. Section 7874 of the US Tax Code, however, contains rules that can cause a non- US corporation to be taxed as a US corporation for US federal income tax purposes. Under section 7874 of the US Tax Code, a corporation created or organized outside the US (i.e., a non-US corporation) will nevertheless be treated as a US corporation for US federal income tax purposes (such treatment is referred to as an "Inversion") if each of the following three conditions are met (i) the non-US corporation acquires, directly or indirectly, or is treated as acquiring under applicable US Treasury Regulations, substantially all of the assets held, directly or indirectly, by a US corporation, (ii) after the acquisition, the former stockholders of the acquired US corporation hold at least 80% (by vote or value) of the shares of the non-US corporation by reason of holding shares of the US acquired corporation, and (iii) after the acquisition, the non-US corporation's expanded affiliated group does not have substantial business activities in the non-US corporation's country of organization or incorporation when compared to the expanded affiliated group's total business activities (clauses (i) – (iii), collectively, the "Inversion Conditions").

For this purpose, "expanded affiliated group" means a group of corporations where (i) the non-US corporation owns stock representing more than 50% of the vote and value of at least one member of the expanded affiliated group, and (ii) stock representing more than 50% of the vote and value of each member is owned by other members of the group. The definition of an "expanded affiliated group" includes partnerships where one (1) or more members of the expanded affiliated group own more than 50% (by vote and value) of the interests of the partnership.

The Company intends to be treated as a US corporation for US federal income tax purposes under section 7874 of the US Tax Code and is expected to be subject to US federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the *Income Tax Act* (Canada) (the "ITA") for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the US which could have a material adverse effect on its financial condition and results of operations.

It is unlikely that the Company will pay any dividends on the SVS in the foreseeable future. However, dividends received by shareholders who are residents of Canada for purpose of the ITA will be subject to US withholding tax. Any such dividends may not qualify for a reduced rate of withholding tax under the Canada-US tax treaty. In addition, a foreign tax credit or a deduction in respect of foreign taxes may not be available.

Dividends received by US shareholders will not be subject to US withholding tax but will be subject to Canadian withholding tax. Dividends paid by the Company will be characterized as US source income for purposes of the foreign tax credit rules under the US Tax Code. Accordingly, US shareholders generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, they have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax.

Dividends received by shareholders that are neither Canadian nor US shareholders will be subject to US withholding tax and will also be subject to Canadian withholding tax. These dividends may not qualify for a reduced rate of US withholding tax under any income tax treaty otherwise applicable to a shareholder of the Company, subject to examination of the relevant treaty.

Because the SVS will be treated as shares of a US domestic corporation, the US gift, estate and generation-skipping transfer tax rules generally apply to a non-US shareholder of SVS.

Shareholders should seek tax advice, based on such shareholders' particular circumstances, from an independent tax advisor.

Limited market for securities

There can be no assurance that an active and liquid market for the Company's shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

The market price of securities is volatile and may not accurately reflect the long-term value of the Company

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of Shares or Warrants to sell their securities at an advantageous price. Market price fluctuations in the Shares and Warrants may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the shares and warrants.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the shares and warrants may decline even if the Company's investment results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in investment values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the shares and warrants may be materially adversely affected.

Limited trademark protection

The Company will not be able to register any US federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the US Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks.

Enforcement of proprietary rights

The Company may be unable to adequately protect or enforce its proprietary rights. Its continuing success will likely depend, in part, on its ability to protect internally developed or acquired, intellectual property and maintain the proprietary nature of its technology through a combination of licenses and other intellectual property arrangements, without infringing the proprietary rights of third parties. The Company cannot prove assurance that its intellectual property owned by the Company will be held valid at the state or federal level if challenged, or that other parties will not claim rights in or ownership of its proprietary rights. Moreover, because marijuana is a Schedule I controlled substance under federal law, and because the US Patent and Trademark Office will not issue federal trademark registrations if the applicant cannot show lawful use of the mark in commerce, it may not be able to adequately protect its intellectual property.

Infringement or misappropriation claims

The Company may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to the resulting issuer, could subject the Company to significant liabilities and other costs. The Company's success may likely depend on its ability to use and develop new extraction technologies, recipes, know-how and new strains of marijuana without infringing the intellectual property rights of third parties. The Company cannot assure that third parties will not assert intellectual property claims against it. The Company is subject to additional risks if entities licensing to it intellectual property do not have adequate rights in any such licensed materials. If third parties assert copyright or patent infringement or violation of other intellectual property rights against the Company, it will be required to defend itself in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of management personnel. An adverse determination in any such litigation or proceedings to which the Company may become a party could subject it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties or subject the Company to injunctions prohibiting the development and operation of its applications.

Potential FDA regulation

Should the federal government legalize cannabis, it is possible that the US Food and Drug Administration (the "FDA"), would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact would be on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If the Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company's business, operating results and financial condition.

Unfavourable publicity or consumer perception

Management of the Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception of the Company's products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or the Company's products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Risks associated with increasing competition

The marijuana industry is highly competitive. The Company will compete with numerous other businesses in the medicinal and adult-use industry, many of which possess greater financial and marketing resources and other resources than the Company. The cannabis business is often affected by changes in national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labor, and governmental regulations. Any changes in these factors could materially and adversely affect the Company's operations. The Company's operations can also be substantially affected by adverse publicity resulting from quality, illness, injury, health concerns, public opinion, or operating issues. The Company will attempt to manage these factors, but the occurrence of any one or more of these factors could materially and adversely affect the Company's business, financial condition and results of operations.

The Company expects to face additional competition from new entrants. If the number of legal users of marijuana in its target jurisdiction increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products.

To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations the Company.

The success of new and existing products and services is uncertain

The Company expects to commit significant resources and capital to develop and market existing and new products, services and enhancements. These products and services are relatively untested, and the Company cannot provide any assurance that it will achieve market acceptance for these products and services, or other new products and services that it may offer in the future. Moreover, these and other new products and services may face significant competition with new and existing competitors. In addition, new products, services and enhancements may pose a variety of technical challenges and require the Company to attract additional qualified employees. The failure to successfully develop and market these new products, services or enhancements could seriously harm the Company's business, financial condition and results of operations. Moreover, if the Company fails to accurately project demand for our new or existing products, it may encounter problems of overproduction or underproduction which would materially and adversely affect its business, financial condition and results of operations, as well as damage our reputation and brand.

Factors which may prevent realization of growth targets

The Company is currently in the early development stage. There is a risk that the additional resources will be needed, and milestones will not be achieved on time, on budget, or at all, as they are can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

Constraints on marketing products

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the US limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's revenues and operating results could be adversely affected.

Risks inherent in an agricultural business

The Company's business involves the growing of cannabis, an agricultural product. Cannabis cultivation has the risks inherent in any agricultural business, including the risk of crop loss, sudden changes in environmental conditions, equipment failure, product recalls and others.

Given the proximity with which commercially farmed cannabis plants are farmed, pest, disease, and crop failures can spread quickly between plants causing material losses. As with any plant crop, quality finished product requires that plants be provided with the correct quantities of clean water, clean air, sunshine, and nutrients, all within a controlled environment. In addition to crop failure due to pest and disease, crop failure can result from sabotage, natural disaster, and human error. Failure of the plant to survive, pass testing requirements or meet industry standards could result in unsaleable finished product. Given the complex series of variables required to produce top quality cannabis, no assurances can be given that production levels will meet estimates or that product will pass required testing or be of a quality that is competitive in the market. Failure to produce marketable cannabis product could have a material adverse financial impact on the Company.

Reliance on management

The success of the Company is dependent on the performance of its senior management. The loss of services of these persons would have a material adverse effect on the Company's business and prospects in the short-term. There is no assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Reliance on third-party service providers

Third party service providers to the company may withdraw or suspend their service to the Company under threat of prosecution. Since under US federal law the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under federal law, companies that provide goods and/or services to companies engaged in cannabis-related activities may, under threat of federal civil and/or criminal prosecution, suspend or withdraw their services. Any suspension of service and inability to procure goods or services from an alternative source, even on a temporary basis, that causes interruptions in the Company's operations could have a material and adverse effect on the Company's business.

Insurance and uninsured risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

The Company may be underinsured and there may be difficulties with acquiring and maintaining insurance coverage in the cannabis industry may reduce the capability of insurance to serve as a reliable and effective risk management tool. Cannabis specific insurance is still a small and specialized market. Consequently, insurance is often unattainable as it is not offered, or it is prohibitively expensive given the scarcity of actuarial data, small number of market participants, which both reduce the ability to share risk across entities. Consequently, many of the risks we face as a Company are uninsured or uninsurable, and we self-insure. Consequently, the Company will be vulnerable to low probability high impact events. If one such event, were to occur it could result in material adverse effects to the financial condition of the Company.

Dependence on suppliers and skilled labor

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labor, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

Management of growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Internal controls

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of the Subordinate Voting Shares.

Product liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of the Company's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, discontinuation of products, adverse impact on the Company's reputation with its clients and consumers generally and could have a material adverse effect on its results of operations and financial condition. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company potential products.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of revenue and may not be able to replace that revenue at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company is establishing procedures to test finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by the regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Liability for activity of employees, contractors and consultants

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims or regulatory enforcement actions against the Company. The cannabis industry is under strict scrutiny. Failure to comply with relevant laws could result in fines, suspension of licenses and civil or criminal action being taken against the Company. Consequently, the Company is subject certain risks, including that employees, contractors and consultants may inadvertently fail to follow the law or purposefully neglect to follow the law, either of which could result in material adverse effects to the financial condition of the Company.

Reliance on Joint Venture Partners

The Company is engaged in certain joint ventures or shared management services agreements, and therefore decisions about operations, funding, employment practices, licensing, banking, compliance and marketing strategy, among others, require the consent of both joint venture partners. The joint venture partners share equally in voting control and jointly consent to items such as those of an operating, financing and investing nature, neither has special governance rights, and both are equally represented on the Board of Directors in certain circumstances. The joint venture partners also share in the profits, losses, and funding of the joint venture. Because the Company does not solely control joint ventures or clients of the management services agreements the Company could fail to obtain the joint venture partner's consent or authorization to fully operate, fund, or license the venture. As such, the lack of full control over joint ventures or management services clients could result in material adverse effects to the financial condition of the Company.

Reliance on information technology and vulnerability to cyber-attacks

The Company will be reliant on information technology systems and may be subject to damaging cyber-attacks. Every business is subject to cyber-attacks, however, cannabis businesses are particularly vulnerable given the relatively small size of the market for, and therefore resources available to, cannabis specific information technology providers. As such cannabis, specific information technology may be less able to thwart attempted breaches and misuses of information technology systems. A breach of the Company's computers could give rise to liabilities that result in material adverse effects to the financial condition of the Company.

Data breaches and privacy law

The Company may be subject to breaches of security at its facilities, or in respect of electronic documents and data storage, and may face risks related to breaches of applicable privacy laws. The Company has previously provided medical marijuana to patients and maintains patient records. Due to the sensitive nature of this information, the Company could be found liable if a breach of security at its facility resulted in the theft, loss, or mishandling of electronic data. If such a breach did occur, the Company could be liable for fines, penalties and for any third-party liability which could result in a material adverse effects to the financial condition of the Company.

Information Technology Systems and Cyber attacks

The Company's operations depend in part on how well it protects networks, equipment, and information technology systems and software against damage from a number of threats, including but not limited to cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as preemptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component thereof could, depending on the nature of such failure, adversely impact the Company's reputation and results of operations. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other factors, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Ability to obtain and retain licenses and permits

The Company may not be able to obtain and/or retain all necessary California and Oregon licenses and permits, which could, among other things, delay or prevent the Company from becoming profitable. The Company's line of business is reliant on the issuance of required licenses. Failure to acquire necessary licenses required to operate new business expansion could have a material adverse effect on its financial condition. Due to the nature of licensing, which is at the discretion of state and local governments, it is outside of the Company's control and therefore ability to ensure that the Company will receive the licenses it seeks.

Illegal drug dealer could pose threats

Currently, there are many drug dealers and cartels that cultivate, buy, sell and trade marijuana in the US, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized marijuana businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

Difficult to forecast demand

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the marijuana industry in Canada and the US. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Disclosure of Internal Controls over Financial Reporting

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements; and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented.

In contrast to non-venture issuers, this MD&A does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). In particular, management is not making any representations relating to the establishment and maintenance of: controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its filings or other reports or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Investors should be aware that inherent limitations on the ability of management of the Company to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of filings and other reports provided under securities legislation.

Management's Responsibility for Financial Information

Management is responsible for all information contained in this MD&A. The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the unaudited condensed interim consolidated financial statements in all material aspects.

The Audit Committee has reviewed the unaudited condensed interim consolidated financial statements and this MD&A with management of the Company. The Board of Directors has approved the unaudited condensed interim consolidated financial statements and this MD&A on the recommendation of the Audit Committee.

Approval

The Board of Directors of the Company has approved the disclosure contained in this MD&A.

Additional Information

Additional information relating to the Company can be found on the Company's SEDAR profile at www.sedar.com.

August 29, 2019

Andrew Berman
Chief Executive Officer