



HARBORSIDE INC.

Management's Discussion and Analysis
For the Three and Nine Months Ended September 30, 2021
(Expressed in United States Dollars)

November 29, 2021

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This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Harborside Inc. ("Harborside" or the "Company") is for the three and nine months ended September 30, 2021 ("Q3 2021"). It is supplemental to, and should be read in conjunction with, the unaudited condensed interim consolidated financial statements of Harborside for the three and nine months ended September 30, 2021 and 2020 (the "Q3 2021 Financial Statements"). The Q3 2021 Financial Statements and the financial information contained in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and 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 November 29, 2021. Unless otherwise indicated, all figures presented in this MD&A are expressed in United States Dollars ("\$" or "USD"). All references to "C\$" or "CAD" pertain to Canadian Dollars. Unless the context otherwise requires, references in this MD&A to the "Company", "Harborside", "we", "us" or "our" refers to Harborside Inc. and its subsidiaries. All data presented below for the three and nine months ended September 30, 2021 are unaudited.

This MD&A has been prepared with reference to the MD&A disclosure requirements of National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators ("CSA") and Staff Notice 51-352 (Revised) – Issuers with US Marijuana Related Activities (the "Staff Notice").

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian securities laws and United States securities laws ("forward-looking statements"). All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements are often identified by words such as "may", "would", "could", "should", "will", "intend", "plan", "seek", "anticipate", "believe", "estimate", "expect" or similar words and expressions. Examples of forward-looking statements include, among others, statements relating to information set out in this MD&A under the headings "Outlook and Growth Strategy", "Projected Revenue Guidance", "COVID-19 Strategy", "Working Capital and Liquidity Outlook", and "Subsequent Events" and statements and information regarding: the effects of the novel coronavirus ("COVID-19") on the Company's operations and financial condition; future financial position and results of operations, strategies, plans, objectives, goals and targets; future developments in the markets where the Company participates or is seeking to participate; the potential divestiture of the Terpene Station Dispensary (as defined herein) in Eugene, Oregon; potential future legalization of adult-use and/or medical cannabis under United States federal law; expectations of market size and growth in the United States ("U.S.") and the states in which the Company operates; the completion of the proposed acquisitions of Urbn Leaf (as defined herein) and Loudpack (as defined herein) on the terms described herein, if at all; the completion of the Private Placement (as defined herein) on the terms described herein, if at all; the completion of the Roll Up Financing (as described herein) on the terms described herein, if at all; and, expectations for other economic, business, regulatory and/or competitive factors related to the Company or the cannabis industry generally and other events or conditions that may occur in the future. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on management's current beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions of the Company. Although the Company believes that the expectations, estimates, and projections reflected in such forward-looking statements are reasonable, such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance, or achievements to differ materially from those suggested by the forward-looking statements. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. On this basis, readers are cautioned not to place undue reliance on such forward-looking statements.

Factors which could cause actual results to differ materially from those indicated in forward-looking statements include, but are not limited to: the expectations and assumptions that the Company's strategies are based on; the impact of the COVID-19 pandemic on the Company's strategies and operations; the unfavorable tax treatment of cannabis businesses and the disallowance of certain tax deductions to the Company; litigation risks; the consolidation and expansion of Harborside's retail footprint in the San Francisco Bay Area (the "Bay Area"), elsewhere within California or in other geographic locations; the scale and improvement of the Company's cannabis cultivation, production and/or manufacturing capabilities; expansion of the Company's wholesale and business-to-business sales of its cannabis products; launching of new branded products; the success in establishing the Company's position as one of California's premier vertically

integrated cannabis companies; the Company's ability to manage the disruptions and volatility in the global capital markets due to COVID-19; and the Company's ability to meet its working capital needs, including the cost and potential impact of complying with existing and proposed laws and regulations; as well as those other risks and uncertainties referenced in this MD&A under the heading "Risk Factors".

The discussion of risk factors in this MD&A has been updated to include discussion of risks related to the current pandemic caused by the continued spread of COVID-19. The nature and scope of the pandemic and its impact are constantly evolving and it is difficult for management to identify all risks, or quantify those identified, or to assess their impact on particular financial measures and operating results at the current time. Nevertheless, the discussion under "Risk Factors" identifies areas of negative potential impact that may be caused by the pandemic.

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 Harborside's financial position and results of operations, as well as its objectives and strategic priorities, and may not be appropriate for other purposes. The Company undertakes no obligation to publicly update or revise any forward-looking statements or 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.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about the Company's prospective results of operations, production and production efficiency, commercialization, revenue and cash on hand, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraph. FOFI contained in this MD&A was approved by management as of the date of this MD&A and was provided for the purpose of providing further information about the Company's future business operations. The Company disclaims any intention or obligation to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Use of Non-IFRS Financial Measures

This MD&A contains references to "Adjusted EBITDA", "Adjusted Gross Profit" and "Adjusted Gross Margin", which are non-IFRS financial measures and do not have standardized definitions under IFRS.

Adjusted EBITDA is a measure of the Company's overall financial performance and is used as an alternative to earnings or income in some circumstances. Adjusted EBITDA is essentially net income (loss) with interest, taxes, depreciation and amortization, non-cash adjustments and other unusual or non-recurring items added back. Adjusted EBITDA can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. Adjusted EBITDA is often used in valuation ratios and can be compared to enterprise value and revenue. The term Adjusted 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 changes in fair value less costs to sell ("FVLCS") of 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 while removing fair value measurements which are tied to changing inventory levels, as required by IFRS.

There are no comparable IFRS financial measures presented in the Q3 2021 Financial Statements. Reconciliations of the supplemental non-IFRS financial measures are presented in this MD&A. The Company provides the non-IFRS financial measures as supplemental information and in addition to the financial measures that are calculated and presented in accordance with IFRS. These supplemental non-IFRS financial measures are presented because management believes such measures provide information which is useful to shareholders and investors in understanding its performance and which may assist in the evaluation of the Company's business relative to that of its peers. However, such measures should not be considered superior to, as a substitute for or as an alternative to, and should only be considered in conjunction with, the most comparable IFRS financial measures.

Additional Information

Additional information relating to Harborside can be found on the Company's SEDAR profile at www.sedar.com, or its website at www.investharborside.com.

Overview of the Company

Harborside, through its affiliated entities, is licensed to cultivate, manufacture, distribute and sell wholesale and retail cannabis and cannabis products for the adult-use and medical markets. The Company operates in and/or has ownership interests in California and Oregon, pursuant to state and local laws and regulations, and is focused on building and maintaining its position as one of California's premier vertically integrated cannabis companies.

The Company's subordinate voting shares ("SVS") are listed on the Canadian Securities Exchange (the "CSE") under the trading symbol "HBOR" and on the OTCQX Best Market under the trading symbol "HBORF". The Company's registered office is located at 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9, Canada. The Company's head office is located at 2100 Embarcadero, Suite 202, Oakland, California, 94606.

Retail Dispensaries

Harborside's retail dispensaries serve both adult-use and medical cannabis customers. The Company's dispensary footprint was initially established in 2006, and today includes Harborside-branded dispensaries located in Oakland, San Jose, San Leandro and Desert Hot Springs, California. In addition, Harborside operates one dispensary in Eugene, Oregon under the Terpene Station brand.

The dispensary located in Desert Hot Springs includes the only drive-thru cannabis dispensary in southern California and was operated under a management services agreement with Accucanna, LLC ("Accucanna"), the dispensary license holder. On September 2, 2021, the Company acquired 100% of the issued and outstanding equity interest of Accucanna, together with the real property related to the Desert Hot Springs dispensary (collectively, the "DHS Acquisition"). The Company did not control Accucanna prior to completion of the DHS Acquisition.

On December 18, 2020, the Company acquired a 21% ownership interest in FGW Haight, Inc. ("FGW"), a company that has the conditional use approval necessary to operate a retail cannabis dispensary in the Haight Ashbury area of San Francisco. The Company currently anticipates that FGW will open the Haight Ashbury dispensary in the first quarter of 2022.

Cultivation and Wholesale

Harborside operates a cultivation and production facility in Salinas, California (the "Production Campus"), which covers an area of approximately 47 acres, of which approximately 11 acres is devoted to five light deprivation greenhouses containing approximately 200,000 total square feet ("sq. ft.") of licensed cannabis cultivation. The cultivation operation includes approximately 155,000 sq. ft. of canopy space allocated to flowering plants and 45,000 sq. ft. of canopy allocated to nursery space. The greenhouses utilize advanced lighting, HVAC and fertigation controls, and one greenhouse additionally features Dutch Venlo technologies (the "Venlo Greenhouse"). The Production Campus also includes approximately 20,000 sq. ft. of building space allocated to processing, product distribution, warehousing, storage and offices. On June 30, 2021, the Company announced that it had completed certain upgrades to the Production Campus, including, among other things, the installation of blackout curtains, supplemental LED grow lights, and the incorporation of a state-of-the-art environmental control system. The Company is expecting these improvements to result in an increase in yield and output at the Production Campus. The Production Campus also processes and distributes branded cannabis products in various consumer formats under the Harborside Farms and KEY brands. These products are sold at Harborside's retail dispensaries along with other retailers and distributors throughout California.

On July 2, 2021, the Company acquired 100% of the issued and outstanding shares of Sublimation Inc. ("Sublime"), a cannabis manufacturing and distribution company located in Oakland, California (the "Sublime Acquisition"). Sublime is well known in California for its "Fuzzies" branded infused pre-rolls as well as other cannabis products, including vapes, which are sold to licensed retailers and distributors throughout the state. Harborside expects to leverage the existing statewide Sublime product distribution network to sell Harborside Farms and KEY branded products alongside the Fuzzies and Sublime brands, thereby gaining additional synergies and economies of scale.

Corporate Organization

The Q3 2021 Financial Statements have been prepared on a consolidated basis and incorporate the accounts of the Company and its subsidiaries, as follows:

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

Outlook and Growth Strategy¹

The Company, through its subsidiaries, is a fully licensed, vertically integrated cannabis company, with its business consisting of three primary segments: (i) retail sales, (ii) cultivation, processing and manufacturing, and (iii) wholesale sales (including branded product sales of consumer-packaged goods).

¹ This section contains forward-looking statements and is based on a number of risks and assumptions, including those described under “Assumptions and Expectations”. See “Cautionary Note Regarding Forward-Looking Statements”.

Regarding its retail sales operations, the Company currently:

- owns four retail dispensaries in California that operate under the Harborside brand, located in Oakland, San Jose, San Leandro and Desert Hot Springs;
- operates a retail delivery service which covers most of the San Francisco Bay area from its Oakland and San Jose dispensaries;
- owns one dispensary located in Eugene, Oregon that operates under the Terpene Station brand; and
- owns a 21% interest in FGW, a company that has the conditional use approval necessary to operate a retail cannabis dispensary in the Haight Ashbury area of San Francisco. FGW is currently in the midst of building out the dispensary, which is expected to open in the first quarter of 2022. The Company expects to increase its ownership interest in FGW to 80% prior to the end of 2022.

With regard to its cultivation, processing, manufacturing and wholesale sales, the Company operates the Production Campus in Salinas, California, a cultivation/production facility which covers an area of approximately 47 acres, of which approximately 11 acres is devoted to five light deprivation greenhouses containing approximately 200,000 total square feet (“sq. ft.”) of licensed cannabis cultivation. The Production Campus enables Harborside to produce a wide array of cannabis products which are offered to consumers at varying price points to meet the diverse and changing buying habits of retail customers. The cultivation operation includes approximately 155,000 sq. ft. of canopy space allocated to flowering plants and 45,000 sq. ft. of canopy allocated to nursery space. The greenhouses utilize advanced lighting, HVAC and fertigation controls, and the Venlo Greenhouse which provides approximately one acre of growing space in a facility that is equipped with solid glass roof paneling, a customizable automated LED lighting system, radiant heated floors, computerized environmental controls and automated fertigation systems. The Production Campus also includes approximately 20,000 sq. ft. of building space allocated to processing, packaging, product distribution, warehousing, storage and offices. All cannabis flower grown at the Production Campus is cultivated using sustainable practices and the facility adheres to California’s rigorous horticulture and harvesting standards.

The Company, following its acquisition of Sublime, also operates a manufacturing facility located in Oakland, California and has distribution hubs in both San Jose and Los Angeles, California. The manufacturing facility produces oils, infused pre-rolls, vape carts and edibles which are manufactured and sold by the Company to other retailers, distributors and wholesale customers.

In November 2020, the Company announced plans to upgrade one of the greenhouses at the Production Campus. The planned upgrades included, among other things, the installation of new floors, blackout curtains and supplemental LED grow lights, and the incorporation of a state-of-the-art environmental control system. The project was substantially completed during the second quarter of 2021.

The Company also announced in November 2020 that its in-house brand, Harborside Farms, had commenced retail sales of clones grown at the Production Campus at all Harborside-branded retail locations.

Harborside also sells a variety of bulk and consumer packaged wholesale cannabis products to other dispensaries, manufacturers, and distributors. Following completion of the Sublime Acquisition in July 2021, the Company also manufactures and distributes cannabis and cannabis products including oils, vape cartridges, infused pre-rolls and non-infused pre-rolls into its own retail locations as well as the licensed wholesale and retail cannabis markets throughout California.

As the regulated California market continues to develop, management sees strong potential growth in well-known retail platforms, as well as branded packaged goods that are highly trusted by consumers and focused on specific consumer demographics. In addition, management expects continued demand for high-quality wholesale bulk flower. The Company’s “Harborside Farms”, “Harborside Farms Reserve” and “KEY” brands are positioned for growth in the area of consumer branded products, including those which are expected to be sold at wholesale to other licensed retailers and distributors throughout California.

Strategies

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

- Expand its vertical integration efforts and overall retail footprint throughout California by acquiring other California focused companies and brands;
- Continue to increase the sell-through of in-house brands across its own retail store footprint;
- Improve its cannabis cultivation efficiencies and yields;
- Utilize Company owned cultivation facilities to improve quality and margins on branded products produced in-house, including those sold under the Harborside Farms, Fuzzies and KEY brands;
- Continue to streamline its manufacturing/processing capabilities;
- Expand the wholesale distribution of its branded consumer packaged goods to other licensed retailers and distributors throughout California;
- Shift more of its cultivation output from bulk cannabis products to branded consumer packaged goods;
- Increase the number of branded cannabis product offerings, including non-flower cannabis products; and
- Create (or acquire) new California centric consumer brands.

Through a review of Harborside's existing retail portfolio, management has decided to explore the potential divestiture of the Terpene Station Dispensary in Eugene, Oregon as part of the Company's continued efforts to focus on the California market. As of the date of this MD&A, the Company has not entered into any agreements, binding or non-binding, to divest the Terpene Station Dispensary. Further, the Company has not established a definitive timeline to complete such divestiture, and no decisions related to the divestiture have been reached at this time. There can be no assurance as to what, if any, transactions might be pursued by the Company as a result of its intention to potentially divest the Terpene Station Dispensary. The Company does not intend to comment further with respect to the divestiture unless and until it determines that additional disclosure is appropriate in accordance with the requirements of applicable securities laws.

The Company is evaluating relocating its dispensary in San Leandro as part of its plan to obtain a long-term lease in a location that will provide better visibility to customers while lowering operating costs. The Company has secured a lease extension at its current location and has not established a definitive timeline to complete the licensure and buildout of a new location. The Company does not intend to comment further with respect to the relocation unless and until it determines that additional disclosure is appropriate in accordance with the requirements of applicable securities laws.

Assumptions and expectations

The Company's strategies are based on several primary market assumptions and expectations, including:

- Ongoing cannabis legalization efforts across the U.S. will contribute to the industry's growth momentum, and California will continue to represent the single largest state market;
- Legalized adult-use and medical cannabis consumption will continue to increase as branded and manufactured products become increasingly popular and cannabis use becomes more widely acceptable and prevalent;
- The cultivation and sales of non-branded bulk cannabis are likely to become commoditized;
- Trusted brands and diversified manufactured products, offering value propositions to a range of consumer demographics, will win the market;
- California will provide an efficient base to service an interstate commerce market if and when available, and
- Vertical integration in the supply chain will create efficiencies for the Company, reduce costs and improve profits by improving business operations in today's regulatory environment.

In management's view, due to a patchwork of differing laws and the inability to ship products across state lines, it has historically proven to be difficult to scale a cannabis business across multiple states. Given the geographic and economic size of the California cannabis market in comparison to other U.S. state markets and the difficulty of operating in multiple states, Harborside intends to focus on a California-centric business model to consolidate and increase its market share throughout the state of California, while at the same time further leveraging its existing strength in the Bay Area, where the Company's dispensaries have already earned considerable market share.

While the Company has invested significantly to scale its cultivation operations, management believes that unbranded wholesale cannabis flower sales prices are being negatively impacted by commoditization as production scales up across California. As such, scale alone will not be 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 wholesale 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 initially target cost-conscious market demographics by emphasizing value.

In addition, Harborside recognizes that consumer purchasing habits are gradually trending in favor of manufactured products over flower and expects this trend to continue as new product categories are created and existing manufactured products are improved. Given this trend for manufactured and branded products, the Company will prioritize development of manufactured products under its own brands, offered for sale through its own retail operations as well as through other licensed retailers and distributors throughout the entire state of California.

Strategic acquisitions

Harborside is actively pursuing growth opportunities to expand its presence in the California cannabis market. The Company intends to make announcements on potential acquisitions once definitive agreements are reached with interested parties.

Recent Developments

On July 2, 2021, as part of its objective to expand the wholesale distribution of its branded consumer packaged goods to other licensed retailers and distributors throughout California, the Company completed the Sublime Acquisition. Sublime is known for its award winning and market leading line of Fuzzies branded infused pre-rolls. Total purchase consideration for the Sublime Acquisition consisted of approximately \$44.7 million, which was comprised of (a) approximately \$38.4 million payable in multiple voting shares (“MVS”), representing 207,579.66 MVS (based on the volume-weighted average price of the SVS for the 30-days immediately preceding the date of the definitive agreement to purchase Sublime); (b) approximately \$5.4 million in cash and settlement of debt; and (c) approximately \$930,000 attributable to a working capital surplus, reduced for accounting purposes by approximately \$70,000 for the settlement of receivables and payables from pre-existing relationships. In addition, concurrent with the closing of the Sublime Acquisition, the Company granted stock options to purchase an aggregate of 536,875 SVS to certain employees of Sublime, who are now employees of the Company. Each stock option is exercisable into one SVS of the Company at an exercise price of C\$1.78 for five years from the date of grant, subject to vesting conditions. In addition, the Company assumed the outstanding options of Sublime upon closing of the Sublime Acquisition, with such number of underlying SVS to be issuable upon exercise of such options to be reasonably determined by the Board in accordance with the provisions of the definitive agreement relating to the Sublime Acquisition.

On July 19, 2021, the Company announced that Peter Bilodeau had resigned as Interim Chief Executive Officer (“CEO”). Concurrently, Matt Hawkins, the Chairman of the Company, assumed the position of Interim CEO and Ahmer Iqbal, former CEO of Sublime, was appointed as Chief Operating Officer of Harborside.

On September 2, 2021, the Company completed the DHS Acquisition for total consideration of approximately \$6.3 million, which was comprised of: (a) approximately \$1.5 million payable through the issuance of 15,793.40 MVS (based on the volume-weighted average price of the SVS at the time of closing) and \$784,646 payable in cash for the equity interest of Accucanna; (b) approximately \$2.6 million payable in cash for the property related to the Desert Hot Springs dispensary; and (c) approximately \$366,000 for the conversion of a call option and approximately \$1.0 million for the settlement of receivables and payables from pre-existing relationships. Harborside expects to ultimately finance all or a portion of the purchase price of the property.

On September 15, 2021, the Company entered into a strategic research agreement with Utah State University (“USU”), working with Dr. Bruce Bugbee and USU’s Plant Physiology Laboratory. This research is focused on crop steering to increase yield per square foot while reducing cycle time and carbon footprint.

On September 27, 2021, the Company announced that, subject to shareholder approval, it intends to amend its articles (the “Amendment”) to remove conversion restrictions placed on the MVS. The Company anticipates that this change will eventually result in more than 50% of the Company’s issued and outstanding SVS being directly or indirectly owned by shareholders of record domiciled in the U.S., which will have the effect of the Company no longer meeting the definition of “foreign private issuer” under U.S. securities laws and the Company will be required to register under the Securities Exchange Act of 1934, as amended (the “Transition”). If and when the Transition is completed, the Company will be subject to the U.S. Securities and Exchange Commission’s reporting requirements applicable to U.S. domestic companies. The SEC’s reporting requirements will require, among other things, the Company’s financial statements and financial data

to be presented under U.S. GAAP. The Company expects to seek shareholder approval for the Amendment by the end of the 2021 calendar year and has established a task force of internal and external resources to manage the Transition.

On September 27, 2021, the Company announced that it had engaged Bay Street Communications (“BSC”) to provide investor relations services to the Company, all in accordance with the terms of an investor relations services agreement entered into with BSC on September 26, 2021 (the “IR Agreement”). The term of the engagement of BSC will be ongoing on a month-to-month basis and may be terminated by either party after six months, with 30 days’ written notice. Under the terms of the IR Agreement, Harborside will pay BSC a monthly fee of C\$10,000 for the ongoing strategic investor relations.

2021 Outlook

In a news release dated January 19, 2021, which is available under the Company’s profile on at www.sedar.com, the Company released certain forward-looking financial projections. In that news release, the Company announced that for 2021, it expected standalone gross revenues of between \$68 to \$72 million. The anticipated increase in revenues for 2021 was expected to be derived from improved retail pricing, along with continued improvements in both flower yields and distribution of wholesale products from the Company’s Production Campus. In addition, the Company announced that it expected an Adjusted EBITDA in the range of 15% to 17% of revenues for 2021.

In developing the financial guidance, the Company formed several assumptions and relied on certain factors and considerations, including: (a) targets were based on historical results, including the prior and current year consolidated results of operations and assuming that no acquisitions were completed; (b) targets were based on improved flower yields and additional cultivation cost improvement plans realized in 2020, and those anticipated to be realized during 2021; (c) both retail and wholesale revenue sustainability and growth would depend on a variety of factors, including among other things, location, competition, legal and regulatory requirements in the areas where the company does business; (d) pricing was projected forward using a combination of ongoing and anticipated market trends, as well as recently realized wholesale and retail prices; (e) selling, general and administrative expenses through the end of 2021 were assumed to decrease as a percentage of revenues due to inherent scalability of selling, general and administrative expenses and the cost cutting initiatives outlined above; (f) total selling, general and administrative expenses include corporate overhead related to public company compliance and regulatory costs but did not include general and administrative expenses related to merger and acquisition activities; (g) cost of goods sold, before taking into account the impact of fair value changes in biological assets (which are non-cash in nature, and, accordingly, are excluded from calculations of Adjusted EBITDA), were projected based on estimated costs of production and capacity available from a vertically integrated supply chain, noting that gross margin can be influenced by a number of different factors including, among other things, the cost and yield of cannabis cultivation and production, wholesale cannabis prices, and other relevant drivers; and (h) the uncertainty resulting from the COVID-19 pandemic.

On an ongoing basis, the Company reviews its financial forecasts to assess the reasonableness of specific developments and broader industry and economic factors. As disclosed in this MD&A, since releasing the above guidance, the Company has engaged in robust M&A activity and strategic growth initiatives to drive shareholder value, including the completion of the Sublime and Accucanna acquisitions and the announcement of the potential acquisitions of Urbn Leaf and Loudpack (see “Subsequent Events”). At the same time, the Company has experienced similar market impacts as other cannabis companies operating in California, including a decline in retail revenue primarily due to a decrease in retail store foot traffic. This was attributed to the California retail market experiencing a softening in consumer demand and a decrease in wholesale revenues as a result of a decline in wholesale pricing for bulk products in the California market. Operationally, the Company also implemented a change in its harvest procedures which delayed flower production in Q3 2021 to allow for the adoption of a perpetual harvest schedule beginning in Q4 2021. The Production Campus also experienced a temporary COVID-19 related supply chain issue with a growing medium (substrate material) which did not meet agreed upon specifications and thereby caused a short-term reduction in harvest yields.

As a result of these significant developments, the Company has elected to withdraw its previously provided guidance and will revisit guidance post-closing.

Selected Financial Information

Financial Information for the Three and Nine Months Ended September 30, 2021

Results of operations

<i>\$ in thousands</i>	Three months ended September 30, 2021	Three months ended September 30, 2020	Three months ended June 30, 2021	Three months ended March 31, 2021	Nine months ended September 30, 2021	Nine months ended September 30, 2020
	\$	\$	\$	\$	\$	\$
Gross revenue	17,885	19,573	16,198	12,958	47,041	50,359
Cultivation taxes	(439)	(1,167)	(844)	(517)	(1,800)	(3,001)
Net revenue	17,446	18,406	15,354	12,441	45,241	47,358
Cost of goods sold	9,015	8,858	8,354	6,614	23,983	25,600
Gross profit before FVLCS	8,431	9,547	7,000	5,827	21,258	21,759
Gross profit	6,782	8,615	8,711	4,589	20,082	22,872
Expenses	11,114	7,830	9,020	7,799	27,933	21,132
Operating income (loss)	(4,331)	786	(309)	(3,211)	(7,851)	1,740
Other income (expense)	8,830	(1,359)	3,637	1,375	13,842	(3,631)
Income tax expense	(1,821)	(1,841)	(1,658)	(1,075)	(4,555)	(4,658)
Net income (loss) attributable to Harborside Inc.	2,734	(2,414)	1,758	(2,911)	1,436	(6,549)
Adjusted EBITDA	1,498	4,267*	1,122	961	3,582	6,639*

* Adjusted EBITDA amounts for the three and nine months ended September 30, 2020 have been revised based on 2020 year-end adjustments

Results for the three months ended September 30, 2021

During the three months ended September 30, 2021, the Company generated retail revenue of \$9.2 million and wholesale revenue of \$2.8 million. The Company also generated manufacturing revenue of \$5.9 million from its acquisition of Sublime, for total gross revenue of \$17.9 million, as compared to retail revenue of \$10.7 million, wholesale revenue of \$8.9 million and manufacturing revenue of \$nil, for total gross revenue of \$19.6 million during the three months ended September 30, 2020.

The Company's retail and wholesale revenues decreased \$1.8 million and \$2.4 million, respectively, from the three months ended June 30, 2021 to the three months ended September 30, 2021. The quarter over quarter decrease in retail revenue was primarily due to a decrease in retail store foot traffic as the California retail market experienced a softening in consumer demand. Wholesale revenues for the three months ended September 30, 2021 decreased as compared to the three months ended June 30, 2021 due to a decline in wholesale pricing for bulk products as the California market began to see a softening in demand combined with commoditization of bulk goods due to additional cultivation supply coming online. In addition, during the third quarter the Company implemented a change in its harvest procedures which delayed flower production in Q3 2021 to allow for the adoption of a perpetual harvest schedule beginning in Q4 2021. The perpetual harvest schedule is expected to increase the number of harvests to at least one per week, which is anticipated to result in efficiencies in square footage use, better utilization of crop drying space, reduction in employee overtime costs and mitigation of the risks experienced with larger harvests. In addition, during Q3 2021, the Production Campus experienced a temporary COVID-19 related supply chain issue with a growing medium (substrate material) which did not meet agreed upon specifications and thereby caused a short-term reduction in harvest yields. The substrate issue was ultimately addressed by changing suppliers and obtaining domestically sourced material.

During the three months ended September 30, 2021, the Company acquired Sublime, which contributed \$5.9 million in manufacturing revenue, as measured from the date of acquisition through quarter end. Sublime is a licensed manufacturer and distributor of adult-use cannabis products with a manufacturing facility in Oakland, California and distribution centers in San Jose and Los Angeles, California. Sublime is best known for its expansive line of high potency, high quality and affordable Fuzzies branded pre-rolls. The Company expects to realize cost synergies and economies of scale from combining the operations of Sublime with its other businesses, including the elimination of redundant facilities and functions and the use of the Company's existing infrastructure to expand operations and sales. During Q3 2021, the Company completed the move of its Salinas based processing and packaging operations from the Production Campus to the Sublime manufacturing facility in Oakland, and also moved Sublime's distribution operations to San Jose to increase efficiencies in its distribution operations. The Company also reduced overall headcount as part of its ongoing drive for additional efficiencies across the business.

During the three months ended September 30, 2021, cost of goods sold for the retail, wholesale and manufacturing operations totalled \$3.8 million, \$1.4 million and \$3.8 million (2020 – \$5.3 million, \$3.5 million and \$nil), respectively. Gross profit before biological asset adjustments for the three months ended September 30, 2021 was \$8.4 million, for a gross margin of 48.3% (2020 – \$9.5 million; gross margin before biological asset adjustments of 51.9%). The gross margin for the three months ended September 30, 2021 decreased from the prior year comparative period due to the addition of the manufacturing operations from the Sublime Acquisition. As mentioned above, the Company is in process of eliminating redundant facilities and functions to increase operational efficiencies and increase gross margins. During the three months ended September 30, 2021, the Company recorded a decrease in FVLCS of biological asset transformation of \$0.8 million (2020 – increase in FVLCS of biological asset transformation of \$0.6 million), and a realized fair value loss on amounts

included in inventories sold of \$0.9 million (2020 – realized fair value loss of \$1.6 million), for an overall gross profit of \$6.8 million and gross margin of 38.9% (2020 – gross profit of \$8.6 million and gross margin of 46.8%). Year-over-year combined gross margins decreased primarily due to lower wholesale prices for bulk goods and less sellable flower production from the Production Campus, the effects of which were partially offset by margin gains from improved pricing and product mix at retail.

Cost of sales for the three months ended September 30, 2021 increased by \$0.7 million compared to the three months ended June 30, 2021. The increase was a result of the cost of sales for manufacturing related to the goods produced by Sublime. Gross profit for the three months ended September 30, 2021 decreased by \$1.9 million compared to the three months ended June 30, 2021 as a result of the lower overall sales volumes and lower wholesale prices for bulk goods.

Results for the nine months ended September 30, 2021

During the nine months ended September 30, 2021, the Company generated retail revenue of \$30.2 million, wholesale revenue of \$11.0 million and manufacturing revenue of \$5.9 million, for total gross revenue of \$47.0 million, as compared to retail revenue of \$31.8 million, wholesale revenue of \$18.6 million and manufacturing revenue of \$nil, for total gross revenue of \$50.4 million during the nine months ended September 30, 2020.

Retail revenue was supported by additional consumer options like curbside and in-store pickup, improved in-store merchandising and a focus on selling more items that were produced in-house. However, results were dampened by decreased in-store foot traffic in California.

The year-over-year decrease in wholesale revenues for the nine months ended September 30, 2021 was primarily due to lower-than-expected flower yields from the Production Campus, combined with lower average prices for bulk products in California. Flower yields during the period were impacted by several factors, including: a Q1 2021 weather event which damaged the roof over a portion of the flower canopy and caused a temporary infestation of non-beneficial insects; a delay in completing the planned greenhouse capital improvements until Q2 2021 due to COVID-19 related supply chain disruptions; a planned delay in harvests during Q3 2021 so that the Company could adopt a perpetual harvest schedule beginning in Q4 2021; and, an issue with a growing medium (substrate material) from a temporary COVID-19 related supply chain issue. Despite the aforementioned challenges, management continues to see overall improvements in harvest yield and flower quality at the Production Campus from the ongoing operational changes being made.

During the nine months ended September 30, 2021, before considering adjustments related to biological assets, cost of goods sold for the retail, wholesale and manufacturing operations totalled \$13.1 million, \$7.1 million and \$3.8 million (2020 – \$15.6 million, \$10.0 million and \$nil), respectively. Gross profit before biological asset adjustments for the nine months ended September 30, 2021 was \$21.3 million, or a gross margin of 47.0% (2020 – \$21.8 million; gross margin before biological asset adjustments of 45.9%). During the nine months ended September 30, 2021, the Company recorded a loss from biological asset adjustments of \$(1.2) million (2020 – gain from biological asset adjustments of \$1.1 million), for an overall gross profit of \$20.1 million and gross margin of 44.4% (2020 – gross profit of \$22.9 million and gross margin of 48.3%). Year-over-year combined gross margins decreased primarily due to lower wholesale prices for bulk goods and less sellable flower production from the Production Campus, the effects of which were partially offset by margin gains from improved pricing and product mix at retail.

Operating Expenses

<i>\$ in thousands</i>	Three months ended September 30, 2021	Three months ended September 30, 2020	Three months ended June 30, 2021	Three months ended March 31, 2021	Nine months ended September 30, 2021	Nine months ended September 30, 2020
	\$	\$	\$	\$	\$	\$
Operating expenses						
General and administrative	6,487	4,144	5,383	4,324	16,194	12,745
Professional fees	2,263	2,640	2,579	1,804	6,648	6,590
Professional fees - M&A and transactional expenses	1,178	-	674	1,381	3,231	-
Share-based compensation	328	559	184	(1)	511	491
Allowance for expected credit losses	265	206	-	77	342	206
Write-downs (recovery) of receivables and investments and advances	(116)	-	-	-	(116)	250
Depreciation and amortization	709	281	200	214	1,123	850

During the three months ended September 30, 2021, the Company incurred total operating expenses of \$11.0 million (2020 – \$7.8 million). The year-to-year increase in total operating expenses is primarily related to the following items:

- An increase in general and administrative expenses of \$2.3 million, to \$6.4 million as compared to \$4.1 million in the three months ended September 30, 2020, which was primarily attributable to (i) an increase in salaries and benefits of \$0.5 million attributable to additional employees from the Sublime and Accucanna Acquisitions; (ii) a \$0.8 million increase in advertising, promotion, sales and marketing expenses to support the Company’s retail and wholesale sales, including added support for the Fuzzies brand; (iii) a \$0.7 million increase in office and general expenses related to loan fees, escrow and insurance fees from the purchase of the Production Campus; (iv) additional rent expense of \$0.1 million related to the short term month to month lease extension at the San Leandro store location; and (v) a \$0.2 million increase in taxes and licenses related to prior year property taxes.
- Professional fees of \$1.1 million related to M&A and transactional expenses, as compared to \$nil million in the three months ended September 30, 2020

During the nine months ended September 30, 2021, the Company incurred total operating expenses of \$27.9 million (2020 – \$21.1 million). The year-to-year increase in total operating expenses is primarily related to the following items:

- An increase in general and administrative expenses of \$3.4 million, to \$16.2 million as compared to \$12.7 million in the nine months ended September 30, 2020, which was attributable to (i) an increase in salaries and benefits of \$1.2 million from one time bonuses, executive search fees for the VP of Production and Chief Executive Officer positions and an increase in headcount from the acquisitions of Sublime and Accucanna; (ii) a \$1.0 million increase in advertising, promotion, sales and marketing expenses to support the Company’s retail and wholesale sales, including added support for the Fuzzies brand; (iii) \$0.7 million increase in office and general expenses related to loan fees, escrow and insurance fees from the purchase of the Production Campus; (iv) additional rent expense of \$0.1 million related to the short term month to month lease extension at the San Leandro store location; (v) general office expenses related to Sublime and Accucanna subsequent to the Sublime Acquisition and the Accucanna Acquisition; and (vi) a \$0.2 million increase in taxes and licenses related to prior year property tax expenses.
- Professional fees of \$3.2 million related to M&A and transactional expenses, as compared to \$nil in the nine months ended September 30, 2020.

Other income (expense)

For the three months ended September 30, 2021, other income was \$8.8 million and consisted of (i) a \$3.5 million fair value gain in other current assets, derivative liabilities and preferred shares from the fair value of the conversion option on the convertible note with FGW, the debenture and the Company’s derivative liabilities; (ii) a \$5.3 million gain from the change in estimate of the uncertain tax liability related to the impact of Internal Revenue Code section 280E on prior year tax returns; (iii) a \$0.2 million foreign exchange loss; (iv) \$0.7 million of accrued interest expense related to estimated interest on the uncertain tax liability; (v) \$0.9 million in other income related primarily to a decrease in the accrual for state sales tax penalties.

For the nine months ended September 30, 2021, other income was \$13.8 million and consisted of (i) a \$10.5 million fair value gain in other current assets, derivative liabilities and preferred shares from the fair value of the conversion option on the convertible note with FGW, the debenture and the Company’s derivative liabilities; (ii) a \$5.3 million gain from a revision to management’s estimate of the uncertain tax liability related to the impact of Internal Revenue Code section 280E on prior year tax returns; (iii) a \$0.1 million gain on debt extinguishment related to the pay down of obligations owed to CFP Fund I, LLC (the “CFP Loan”); (iv) \$0.3 million in other income related primarily to a decrease in accrual for sales

taxes, offset by expenses related to legal settlements; and (v) \$2.5 million in accrued interest expense related to estimated interest on the uncertain tax liability.

During the three months ended September 30, 2021, the Company recorded an income tax provision of \$1.8 million (2020 – \$1.8 million) based on estimated federal income taxes payable as at period-end.

During the nine months ended September 30, 2021, the Company recorded an income tax provision of \$4.6 million (2020 – \$4.7 million) based on estimated federal income taxes payable as at period-end. The decrease of \$0.1 million is due to lower gross profits for the comparative period. Additionally, at September 30, 2021 the Company revised its estimate of uncertain tax liability related to the impact of Internal Revenue Code section 280E on prior year tax returns, resulting in a gain of approximately \$5.3 million.

Overall, net income attributable to Harborside for the three months ended September 30, 2021 was \$2.7 million (net income of \$0.03 per share), as compared to a net loss attributable to Harborside of \$2.4 million (net loss of \$0.06 per share) for the comparative period in 2020. Net income attributable to Harborside for the three months ended September 30, 2021 increased by \$1.2 million as compared to the net income of \$1.7 million for the three months ended June 30, 2021. The increase was primarily due to fair value changes recognized during the three months ended September 30, 2021 on other current assets and derivative liabilities held by the Company and the gain recognized on revising the estimate of uncertain tax liability related to Internal Revenue Code section 280E.

Overall, net income attributable to Harborside for the nine months ended September 30, 2021 was \$1.6 million (net income of \$0.03 per share), as compared to a net loss attributable to Harborside of \$6.5 million (net loss of \$0.15 per share) for the comparative period in 2020.

The Company's Adjusted EBITDA during the three months ended September 30, 2021 was \$1.5 million, compared to \$4.3 million for the three months ended September 30, 2020.

The Company's Adjusted EBITDA increased by \$0.4 million, to \$1.5 million in three months ended September 30, 2021, as compared to \$1.1 million for the three months ended June 30, 2021.

The Company's Adjusted EBITDA during the nine months ended September 30, 2021 was \$3.6 million, as compared to \$6.6 million for the nine months ended September 30, 2020.

Adjusted EBITDA is a non-IFRS measure. Refer to *Adjusted EBITDA & Adjusted EBITDA Margin* in the reconciliation of non-IFRS measures for further details.

The Company does not experience significant seasonality in its revenue and other important financial performance metrics.

Selected quarterly financial results

The following tables presenting the Company's quarterly results of operations should be read in conjunction with the Q3 2021 Financial Statements and related notes thereto. Operating results for any quarter are not necessarily indicative of results for any future quarters, or for a full year. Selected financial information for the eight most recently completed quarters as at September 30, 2021 are as follows:

	Q3 2021	Q2 2021	Q1 2021	Q4 2020
	\$	\$	\$	\$
Retail revenue, net	9,182,923	10,962,053	10,036,262	10,212,430
Wholesale revenue, net	2,810,791	5,236,230	2,921,268	2,844,895
Manufacturing revenue, net	5,891,187	-	-	-
Gross revenue	17,884,901	16,198,283	12,957,530	13,057,325
Gross profit	6,782,259	8,710,826	4,588,513	6,722,582
Operating expenses	(11,113,681)	(9,019,857)	(7,799,104)	(12,162,080)
Operating income (loss)	(4,331,422)	(309,031)	(3,210,591)	(5,439,498)
Net income (loss) attributable to Harborside Inc.	2,733,602	1,757,955	(2,910,749)	(5,397,824)
Net income (loss) per share – basic	0.03	0.03	(0.06)	(0.14)
Net income (loss) per share – diluted	0.03	0.03	(0.06)	(0.14)

	Q3 2020	Q2 2020	Q1 2020	Q4 2019
	\$	\$	\$	\$
Retail revenue, net	10,681,897	10,940,143	10,181,471	9,511,222
Wholesale revenue, net	8,890,723	5,208,439	4,456,775	2,185,701
Gross revenue	19,572,620	16,148,582	14,638,246	11,696,923
Gross profit	8,615,344	7,596,476	6,659,806	3,055,900
Operating expenses	(7,829,586)	(7,119,202)	(6,182,951)	(46,608,569)
Operating income (loss)	785,758	477,274	476,855	(43,552,669)
Net loss and comprehensive loss	(2,413,987)	(1,747,743)	(2,387,136)	(44,961,961)
Net loss per share – basic and diluted	(0.06)	(0.03)	(0.05)	(1.40)

Selected Cash Flow Information for the Three and Nine Months Ended September 30, 2021

<i>(in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net cash (used in) provided by:				
Operating activities	\$ (4,738)	\$ 507	\$ (11,012)	\$ 2,818
Financing activities	(1,014)	(295)	28,116	(876)
Investing activities	(6,472)	18	(13,484)	(485)
Effects of foreign exchange on cash and restricted cash	(440)	(584)	193	(337)
Net increase (decrease) in cash and restricted cash	(12,664)	(354)	3,813	1,120
Cash and restricted cash, beginning of period	26,936	13,639	10,459	12,165
Cash and restricted cash, end of period	\$ 14,272	\$ 13,285	\$ 14,272	\$ 13,285

Operating activities

Net cash used in operating activities of \$4.7 million for the three months ended September 30, 2021 increased by \$5.2 million as compared to the same period in the prior year. The increase in cash used due to increase in inventories of \$2.2 million, biological assets of \$1.8 million and accounts payable and accrued liabilities for payments due to suppliers of \$3.3 million, offset by a decrease in accounts receivable attributable to cash collections of \$2.0 million.

Net cash used in operating activities of \$11.0 million for the nine months ended September 30, 2021 increased by \$13.8 million as compared to the same period in the prior year. The increase was primarily due to increases in non-cash working capital related to an increase in inventories of \$1.0 million; a change in biological assets of \$3.0 million; accounts payable and accrued liabilities for payments due to suppliers of \$5.3 million; and \$1.9 million related to payments made for accrued interest and notes payable from the repayments of the CFP Loan and convertible debt.

Financing activities

Net cash used in financing activities of \$1.0 million for the three months ended September 30, 2021 increased by \$0.7 million, primarily from the repayment of principal on notes payable of \$0.5 million related to the payoff of convertible notes, \$0.1 million related to the payoff of a Sublime note and cash payments of \$0.1 million for principal reductions on lease liabilities. During the three months ended September 30, 2020, net cash used in financing activities of \$0.3 million related to cash payments of principal on the lease liabilities.

Net cash provided by financing activities during the nine months ended September 30, 2021 was \$28.1 million, primarily due to gross proceeds of \$27.6 million (approximately C\$35.1 million) from the Offering, which was offset by cash issuance costs of \$0.7 million. The Company also withdrew funds of \$11.8 million from the Credit Facility, which was offset by the principal repayment of notes payable of \$9.1 million related to the CFP Loan, principal repayment of convertible notes of \$0.5 million and \$0.1 million related to the payoff of a Sublime note and cash payments of principal on the lease liabilities of \$1.1 million. The Company also received proceeds of approximately \$0.2 million from the exercise of 1,335,877 stock options during the period. During the nine months ended September 30, 2020, net cash used in financing activities was \$0.9 million related to cash payments of principal on the lease liabilities.

Investing activities

Net cash used in investing activities during the three months ended September 30, 2021 was \$6.5 million, driven primarily by investments in property, plant and equipment of \$0.6 million related to the build out of the San Francisco dispensary, \$1.0 million related to the purchase of a note receivable, \$0.9 million for the settlement of pre-existing relationships related to the Sublime and Accucanna acquisitions and cash paid (net of cash received) for the Sublime and Accucanna acquisitions of \$0.4 million and \$3.4 million, respectively. During the three months ended September 30, 2020, net cash used in investing activities was \$0.02 million, including \$0.2 million for new property, plant and equipment and an advance of \$0.1 million made to a related party offset by \$0.3 million investment in Accucanna.

Net cash used in investing activities during the nine months ended September 30, 2021 was \$13.5 million, driven primarily by the purchase of \$5.0 million in 15% senior secured convertible debentures, \$1.0 million related to the purchase of a note receivable, \$0.9 million for the settlement of pre-existing relationships related to the Sublime and Accucanna acquisitions, cash paid (net of cash received) for the Sublime and Accucanna acquisitions of \$0.4 million and \$3.4 million, respectively, as well as investments in property, plant and equipment of \$1.6 million related to the Company's upgrade of one of its greenhouses at the Production Campus and \$1.2 million for the build out of the San Francisco dispensary. During the nine months ended September 30, 2020, net cash used in investing activities was \$0.5 million, of which approximately \$0.4 million was spent on additions of new property, plant and equipment and \$0.1 million was an advance to related party.

Reconciliation of Non-IFRS Measures

The following information provides reconciliations of the supplemental non-IFRS financial measures, as compared 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 of the Company, both including and excluding adjusted items, and believes that the supplemental non-IFRS financial measures presented provide additional perspective and insight 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 the IFRS financial measures presented. Instead, they 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 of biological assets.

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
	\$	\$	\$	\$
Net Revenue	17,445,607	18,405,627	45,240,649	47,358,397
Gross Profit	6,782,259	8,615,344	20,081,598	22,871,626
Adjusted for:				
Net effect of change in fair value less cost to sell of biological asset transformation	(753,741)	630,851	643,648	2,954,852
Adjusted Gross Profit	6,028,518	9,246,195	20,725,246	25,826,478
Adjusted Gross Margin	34.6%	50.2%	45.8%	54.5%

After adjusting for the net effect of the change in fair value less cost to sell of biological asset transformation, the Adjusted Gross Profit for the three and nine months ended September 30, 2021 was \$6.0 million and \$20.7 million (2020 – \$9.2 million and \$25.8 million), respectively. The Adjusted Gross Margin for the three and nine months ended September 30, 2021 was 34.6% and 45.8% (2020 – 50.2% and 54.5%), respectively. The decrease in adjusted gross margin is primarily due to lower wholesale prices for bulk goods and less sellable flower production from the Production Campus, the effects of which were partially offset by margin gains from improved pricing and product mix at retail.

Adjusted EBITDA & Adjusted EBITDA Margin

“Adjusted EBITDA” is a metric used by management which is net income (loss) adjusted for interest, provisions for income taxes, other non-cash items including depreciation and amortization, share-based compensation, non-cash provisions, the non-cash effects of accounting changes in biological assets, derivative liabilities, and other extraordinary and non-recurring items. “Adjusted EBITDA Margin” is Adjusted EBITDA as a percentage of reported net revenue.

As reflected in the following table, after adjusting for depreciation and amortization, interest, provisions for income taxes, other non-cash and extraordinary non-recurring items, share-based compensation, non-cash provisions, the non-cash effects of accounting changes in biological asset adjustments and derivative liabilities, the Adjusted EBITDA for the three and nine months ended September 30, 2021 was \$1.5 million and \$3.6 million (2020 – adjusted EBITDA of \$4.3 million and \$6.6 million), respectively. The Adjusted EBITDA Margin for the three and nine months ended September 30, 2021 was 8.6% and 7.9% (2020 – adjusted EBITDA margin of 23.2% and 14.0%), respectively.

	Three months ended September 30, 2021	Three months ended September 30, 2020	Three months ended June 30, 2021	Three months ended March 31, 2021	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Net income (loss) attributable to Harborside Inc.	2,733,602	(2,413,987)	1,757,955	(2,910,749)	1,580,808	(6,548,866)
Adjusted for:						
Biological assets adjustments	1,648,440	931,856	(1,710,533)	1,238,145	1,176,052	(1,113,113)
Share-based compensation	327,623	558,869	184,149	(1,000)	510,772	490,811
Write-down (recovery) of receivables and investments and advances	(116,000)	-	-	-	(116,000)	250,280
Depreciation and amortization	709,419	281,078	199,558	214,108	1,123,085	849,655
Depreciation included in COGS	546,586	492,843	514,484	513,132	1,574,202	1,512,083
Interest expense	722,290	1,399,243	903,129	915,562	2,540,981	3,577,706
Provision for 280E	(5,295,602)	-	-	-	(5,295,602)	-
Fair value change in other assets, derivative liabilities and preferred shares	(3,513,557)	(12,168)	(4,974,058)	(2,013,059)	(10,500,674)	(15,227)
Foreign exchange (gain) loss	185,616	73,825	(391,736)	45,199	(160,921)	321,165
Non-recurring expenses	550,202	1,114,647	2,309,335	503,564	3,363,101	2,656,627
Non-recurring expenses - M&A and transactional expenses	1,178,351	-	671,540	1,380,742	3,230,633	-
Income tax provision	1,821,395	1,841,188	1,658,447	1,075,252	4,555,094	4,658,142
Adjusted EBITDA	1,498,365	4,267,394	1,122,270	960,896	3,581,531	6,639,263
Adjusted EBITDA Margin	8.6%	23.2%	7.3%	7.7%	7.9%	14.0%

Issued and Outstanding Share Capital

As at September 30, 2021, the Company had the following securities issued and outstanding on a fully diluted basis, expressed as the number of SVS issuable upon conversion or exercise, as applicable, of such securities:

Designation of Securities	Number of Underlying SVS
Subordinate Voting Shares	39,450,385
Multiple Voting Shares	42,597,073
Options	5,761,895
Contingent Stock Grants	75,000
Warrants	14,175,900
Broker Warrants	1,138,308
Total Fully Diluted Share Capital	103,198,561

As at the date of this MD&A, the Company has the following securities issued and outstanding on a fully diluted basis, expressed as the number of SVS issuable upon conversion or exercise, as applicable, of such securities:

Designation of Securities	Number of Underlying SVS
Subordinate Voting Shares	39,525,407
Multiple Voting Shares	42,597,073
Options	4,872,740 ²
Contingent Stock Grants	75,000
Warrants	14,175,900
Broker Warrants	1,138,308
Total Fully Diluted Share Capital	102,384,428

Commitments and Contingencies

From time to time, the Company may become a party to legal actions and the Company intends to take appropriate action with respect to any such legal action, including defending itself against such legal claims as necessary. As the Company's growth continues, it may become party to an increasing number of litigation matters and claims. The outcomes of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect the Company's financial position, results of operations or cash flows. Other than the claims described below, as of the date of this report, the Company is not aware of any other material or significant claims against the Company.

IRC Section 280E

Many of the central issues relating to the interpretation of IRC Section 280E remain unsettled and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under Section 280E) that have never been fully addressed by any Treasury regulation or court case. IFRIC 23 provides guidance that adds to the requirements in IAS 12, by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the IRS and the U.S. Tax Court, determined that a reserve for an uncertain tax position should be recorded. As at September 30, 2021 and December 31, 2020, the reserve totalled \$33,798,626 and \$37,758,875, respectively. On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to San Jose Wellness Solutions Corp. ("SJW") to disallow all of SJW's deductions pursuant to IRC Section 280E for all the years at issue. On May 14, 2021, the Company appealed the Tax Court ruling. The Company is currently attempting to resolve the matter as part of a global settlement.

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

In June 2018, a former employee asserted claims against the Company alleging six causes of action including discrimination on the basis of sex, race, and/or age; failure to prevent discrimination; retaliation for reporting harassment; hostile work environment harassment; defamation; and wrongful termination in violation of public policy. The claims were resolved and settled in June, 2021, with no admission of wrongdoing on the part of the Company. Pursuant to the settlement agreement, the Company made a one-time payment, net of insurance coverage, of approximately \$1,535,000 to settle all aspects of the litigation.

SLWS

In August, 2020, the Company's subsidiary, SLWS, pursuant to a prior agreement, commenced a demand for arbitration and relief against Agustin J. Lopez, Diana G. Lopez and KSJ Development LLC ("Defendants") with respect to a number of alleged violations of the terms and conditions of the property lease between SLWS and the Defendants. On March 30, 2021, the court ruled against SLWS and entered a judgment and on April 26, 2021, the Company entered into a settlement agreement with the landlord which included extending the lease until October 31, 2021 and authorizing adult use retail

² Number does not reflect the number of underlying SVS issuable upon exercise of the options assumed from Sublime pursuant to the Sublime Acquisition, as such, number of underlying SVS has yet to be reasonably determined by the Board in accordance with the provisions of the definitive agreement relating to the Sublime Acquisition.

sales on the premises for the duration of the lease. Effective October 19, 2021, the Company negotiated an additional six-month extension with an optional three months available if mutually agreed by the parties to the lease.

Trademark Agreement Lawsuit

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

Sublime has evaluated its claim and the foregoing matters to assess the likelihood of any unfavorable outcome and to estimate, if possible, the amount of potential loss as it relates to the litigation disclosed above. Management believes a loss is probable and can be reasonably estimated. Accordingly, the Company has recorded a provision of \$250,000.

Gia Calhoun v. FLRish, Inc.

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

1. No class-related discovery is permitted;
2. Within the next 90 days, the Company may take discovery on plaintiff’s DNC claim; and
3. Within the next 90 days, plaintiff may take discovery on the issue of whether an ATDS was used to call Plaintiff. However, the court expressly ruled that the parties may not engage in any expert discovery on the ATDS issue.

In April, 2021, the Supreme Court issued its decision in the *Facebook* case, narrowly interpreting ATDS. The Court held, “Congress’ definition of an autodialer requires that in all cases, whether storing or producing numbers to be called, the equipment in question must use a random or sequential number generator.” Though not dispositive, the Company believes the ruling is favorable to its defense. The parties participated in another case management conference in May, 2021. At the May, 2021 case management conference, the Court lifted the stay on class-related discovery that the Court had previously imposed. By mutual agreement of the parties, the Court imposed a stay of the case for 90 days and set a case management conference to be held in December, 2021.

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

In January, 2020, Patients Mutual Assistance Collective Corporation (“PMACC”) was served with a complaint filed by plaintiff and putative class representative Michael Adams. The complaint, filed in Superior Court of the State of California for Alameda County, alleges violations of California law with respect to PMACC’s employee wage payment practices, and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to the plaintiff. The Company believes that the complaint fails to state any claim upon which relief can be granted, and that it has meritorious defenses to the alleged causes of action. The Company further believes that the allegations fail to adequately

represent the claims of any alleged class of similarly situated plaintiffs. In April 2020, the Company filed a demurrer/motion to strike as to plaintiff's complaint; the Court granted the Company's demurrer/motion to strike in part, with leave for the plaintiffs to amend and refile their original complaint. In October, 2020, plaintiff and the Company agreed to mediation of the case, with mediation scheduled for May, 2021. At the May, 2021 mediation, the parties did not reach a settlement agreement, however, the parties agreed to continue discovery. As of the date of the issuance of the Q3 2021 Financial Statements, no follow-up mediation or trial date has been set and the parties continue to engage in pre-trial discovery.

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.

Off-Balance Sheet Arrangements

As at September 30, 2021 and the date of this MD&A, the Company does not have any off-balance sheet arrangements.

Working Capital and Liquidity Outlook³

The Company's primary need for liquidity is to fund the working capital requirements of its 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 its future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond management's control.

As at September 30, 2021, the Company had total current assets of approximately \$34.7 million (December 31, 2020 – approximately \$19.8 million), including cash and restricted cash of approximately \$14.3 million (December 31, 2020 – approximately \$10.5 million) to settle current liabilities of approximately \$70.0 million (December 31, 2020 – approximately \$63.5 million), for a net working capital deficiency of approximately \$35.3 million (December 31, 2020 – working capital deficiency of approximately \$43.7 million).

The higher amount of current liabilities as at September 30, 2021 is primarily due to the Company's provision for an uncertain tax position related to IRC Section 280E, and the estimated federal income taxes payable as at period-end. The Company does not currently expect any resultant potential liabilities, or any material payments resulting from its 280E provision to be resolved within 12 months of the issuance date of the Q3 2021 Financial Statements. See "Provisions" for additional information.

Management believes there is sufficient capital available to meet short-term business obligations, after taking into account the cash flow requirements from operations, the expected timing of its provision related to 280E and the Company's cash position at period-end.

³ 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".

Related Party Transactions

Key Management Personnel Compensation

Key management includes directors and officers of the Company. Total compensation (comprised of salaries, benefits, one-time bonuses and share-based payments) awarded to key management for the three and nine months ended September 30, 2021 and 2020 was as follows:

	Three Months ended September 30, 2021	Three Months ended September 30, 2020	Nine Months ended September 30, 2021	Nine Months ended September 30, 2020
	\$	\$	\$	\$
Short-term employee benefits, including salaries and directors' fees	362,013	558,759	1,025,738	1,672,036
Executive bonuses	-	-	246,250	-
Share-based compensation – Directors and Executives	164,399	364,182	417,071	292,721
	526,412	922,941	1,718,801	1,964,757

On December 31, 2020, Steve DeAngelo, former CEO and director of FLRish and former Chairman Emeritus of the Company separated from the Company and the Company accrued estimated severance payments of \$829,162. As at September 30, 2021, the anticipated severance payments were payable to Mr. DeAngelo. The severance payments are ultimately expected to be paid out in accordance with a severance agreement.

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

On July 19, 2021, Matt Hawkins, Chairman of the Board, assumed the position of Interim CEO of Harborside. As at September 30, 2021, \$7,875 was payable to Cresco Capital Management II, LLC, an entity doing business as Entourage ("Entourage"), through which Mr. Hawkins is compensated for his services as the Interim CEO of the Company. Entourage is controlled and directed by Mr. Hawkins and Andrew Sturner, directors of the Company.

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

As at September 30, 2021, there were no amounts payable to Greg Sutton, the former Chief Operating Officer of Cultivation and Manufacturing of the Company (December 31, 2020 - \$2,463).

As at September 30, 2021, \$27,927 was payable to Newhouse Development LLC ("Newhouse"), a company controlled by Tom DiGiovanni, the Chief Financial Officer ("CFO"), through which Mr. DiGiovanni is compensated for his services as CFO of the Company (December 31, 2020 - \$35,604).

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

Related Parties

		Transactions for the three months ended		Transactions for the nine months ended		Balance outstanding	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020	September 30, 2021	December 31, 2020
Purchases of goods or services from related parties:							
Sublime	Matthew Hawkins and Andrew Sturner, directors of the Company are partners at Entourage Effect Capital which is an investor in Sublime. As of July 2, 2021, Sublime was acquired by the Company.	\$ 96,863	\$ 65,850	\$ 292,084	\$ 110,693	-	\$ 56,788
Nutritional High International Inc.	Adam Szweras, a former director of the Company, serves as the Chairman of the Board of the Directors of Nutritional High International Inc. As of November 2020, Mr. Szweras is no longer a related party of the Company.	\$ -	\$ 216,257	\$ -	\$ 553,578	\$ -	\$ 169,350
Flow Cannabis Co.	Kevin Albert, a director of the Company, serves as a director on the board of Flow Cannabis Co.	\$ -	\$ 20,823	\$ 833	\$ 87,104	\$ 1,517	\$ 6,705
Branson Corporate Services Ltd. ("Branson")	Branson provided finance, accounting and administrative services to the Company through October 31, 2021. Mr. Bilodeau holds a 16% ownership interest in Branson. As of July 2021, Mr. Bilodeau is no longer a related party of the Company.	\$ -	\$ 154,685	\$ 86,648	\$ 220,673	\$ -	\$ 15,975
Black Oak Ventures ("Black Oak")	Black Oak provides certain investor relations services to the Company. Black Oak's principal is an immediate family member of Mr. Bilodeau. As of July 2021, Mr. Bilodeau is no longer a related party of the Company. As of August 31, 2021, Black Oak no longer provides services to the Company.	\$ -	\$ 33,000	\$ 36,000	\$ 62,333	\$ 6,780	\$ 12,602
Aird & Berlis LLP	Aird & Berlis LLP, a law firm in which Sherri Altshuler, a former director of the Company, is a partner, provides legal services to the Company. As of November 2020, Ms. Altshuler is no longer a related party.	\$ -	\$ 279,405	\$ -	\$ 476,534	\$ -	\$ 548,654
Fogler, Rubinoff LLP ("Fogler")	Fogler, a law firm in which Mr. Szweras is a partner, provides legal services to the Company. As of November 2020, Mr. Szweras is no longer a related party of the Company.	\$ -	\$ (6,330)	\$ -	\$ (10,020)	\$ -	\$ -
Sales to related parties:							
Sublime	Matthew Hawkins and Andrew Sturner, directors of the Company are partners at Entourage Effect Capital which is an investor in Sublime. As of July 2, 2021, Sublime was acquired by the Company.	\$ -	\$ 400,802	\$ 566,472	\$ 484,025	\$ -	\$ (39,914)

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

Sublime Acquisition⁴

As at July 2, 2021, the closing date of the Sublime Acquisition, Cresco Capital Partners II LLC (“Cresco”) beneficially owned, and exercised control or direction over approximately 18.68% of the SVS. On a fully-diluted basis, Cresco owned less than 10.0% of the issued and outstanding SVS and approximately 12.76% of the issued and outstanding SVS on an as-converted and partially-diluted basis. The completion of the Sublime Acquisition resulted in the issuance of 207,579.66 MVS to Sublime shareholders. Cresco is entitled to a minimum of 20,570.25 MVS based on its ownership of the Sublime shares, which will result in a decrease in Cresco’s interest in the MVS of approximately 7.43% on a partially diluted basis, provided that (i) such MVS are currently held in trust on behalf of Cresco for 12 months; and (ii) Cresco will be entitled to a substantial number of additional shares under the terms of the lock-up agreements and escrow arrangements amongst the former shareholders of Sublime. Based on its shareholdings as at the closing date of the Sublime Acquisition, and assuming Cresco is only entitled to 20,570.25 MVS, Cresco beneficially owns, and exercises control or direction over, 697,638 SVS, 91,570.25 MVS and 35,500 warrants to purchase MVS, representing approximately 12.84% of the issued and outstanding MVS on a non-diluted basis and approximately 19.39% of the issued and outstanding MVS on a partially-diluted basis, assuming the exercise of the warrants held by Cresco. Based on its shareholdings as at the closing date of the Sublime Acquisition, and assuming the conversion of all of the MVS beneficially owned, or controlled or directed, by Cresco, and that no other securities, including those convertible into, or exercisable for, Harborside’s securities, are issued, converted or exercised, Cresco beneficially owns, and exercises control or direction over approximately 22.50% of the SVS, representing an increase in Cresco’s interest in the SVS of approximately 3.82%.

CCP Flrish Inc. (“CCPF”), Cresco Capital Partners, LLC (“CCP”), Matt Hawkins and Andrew Sturner, each a “joint actor” (as such term is defined in National Instrument 62-103 – The Early Warning System and Related Take-Over Bid and Insider Reporting Issues) of Cresco, also own, or exercise control or direction over, securities of Harborside. Based on shareholdings as at the closing date of the Sublime Acquisition, Cresco, together with CCPF, CCP, Mr. Hawkins and Mr. Sturner, owns, or exercises control or direction over as at the closing date of the Sublime Acquisition, an aggregate of 91,570.25 MVS, 1,179,565 SVS, 35,500 warrants to purchase MVS and 463,350 stock options, representing approximately 19.39% of the issued and outstanding MVS on a partially-diluted basis, assuming the exercise of the warrants held by Cresco and approximately 24.40% of the issued and outstanding SVS on a partially-diluted basis, assuming (i) the conversion of all of the MVS beneficially owned, or controlled or directed, by Cresco; (ii) the exercise of the warrants held by Cresco and subsequent conversion into SVS; (iii) the exercise of all stock options owned by Mr. Hawkins; and (iv) that no other securities, including those convertible into, or exercisable for, Harborside’s securities, are issued, converted or exercised.

Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of the Q3 2021 Financial Statements are consistent with those applied in the Company’s audited consolidated financial statements for the year ended December 31, 2020, except for inventories and revenue recognition for manufacturing revenue as described in the Q3 2021 Financial Statements.

Critical accounting estimates and judgments

There have been no material changes to the critical accounting estimates and judgements as listed in the MD&A for the year ended December 31, 2020.

Capital Management

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

⁴ The information in this section is based on information provided by Cresco to Harborside, and is based on Cresco’s shareholdings of Harborside as at the closing date of the Sublime Acquisition.

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

- (i) minimizing discretionary disbursements;
- (ii) reducing operating expenditures throughout the Company; and
- (iii) exploring alternate sources of liquidity.

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

Financial and Risk Management

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

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. The Company’s liquidity and operating results may be adversely affected if the Company’s access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its operating and financing activities.

As at September 30, 2021, the Company had a cash and restricted cash balance of \$14,272,406 (December 31, 2020 – \$10,458,545) to settle current liabilities of \$70,024,492 (December 31, 2020 – \$63,466,254). The higher current liabilities as at September 30, 2021 and December 31, 2020 was primarily due to the Company’s provision for an uncertain tax position related to IRC Section 280E.

In addition to the commitments outlined in Note 12, *Right-of-use Assets and Lease Liabilities*, and Note 27, *Commitments and Contingencies*, of the Q3 2021 Financial Statements, the Company has the following contractual obligations as at September 30, 2021:

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

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

Management believes there is sufficient capital to meet short-term business obligations, after taking into account cash flow requirements from operations and the Company’s cash position as at September 30, 2021.

Credit risk

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

Market risks

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate volatility as its Credit Facility has a variable interest rate based on the prime rate charged by the bank plus a premium, with a floor rate of 5.75%.

Foreign exchange risk

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

Equity price risk

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

Asset forfeiture risk

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

Banking risk

Notwithstanding that a majority of states have legalized medical cannabis, and the U.S. Congress's passage of the Secure and Fair Enforcement (SAFE) Banking Act, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal under the FCSA, there is an argument that banks cannot accept funds for deposit from businesses involved with the cannabis industry.

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

Tax risk

Tax risk is the risk of changes in the tax environment that would have a material adverse effect on the Company's business, results of operations, and financial condition. Currently, state licensed cannabis businesses are assessed a comparatively high effective federal tax rate due to Section 280E which bars businesses from deducting all expenses except their cost of goods sold when calculating federal tax liability. Any increase in tax levies resulting from additional tax measures may have a further adverse effect on the operations of the Company, while any decrease in such tax levies will be beneficial to future operations.

Regulatory risk

Regulatory risk pertains to the risk that the Company's business objectives are contingent, in part, upon the compliance with regulatory requirements. Due to the nature of the industry, regulatory requirements can be more stringent than other industries and may also be punitive in nature. Any delays in obtaining, or failure to obtain regulatory approvals can significantly delay operational and product development and can have a material adverse effect on the Company's business, results of operation, and financial condition.

The Company routinely monitors regulatory changes occurring in the cannabis industry at the city, state, and national levels. Although the general regulatory outlook for the cannabis industry has been moving in a positive direction, unforeseen regulatory changes could have a material adverse effect on the business as a whole.

Subsequent Events

Energy Efficiency Project

On October 12, 2021, the Company announced plans to install an onsite renewable energy microgrid that is expected to include 4.9 MW of solar panels and 6 MWh of battery storage tied to advanced system and load management controls at the Company's Production Campus located in Salinas, California.

Retail Partnership with RNBW

On October 15, 2021, the Company announced it had entered into a retail partnership with RNBW, a new premium cannabis brand produced in collaboration with music giant Insomniac. Under the partnership, Harborside intends to sell RNBW cannabis products and special ticket bundles containing RNBW products at Harborside dispensaries throughout California.

Change of Auditor

On November 4, 2021, the Company announced that, following the recommendation of the audit committee and in anticipation of the Company's transition to domestic issuer status in the United States, the Company's Board had accepted the resignation of MNP LLP as the auditor of the Company effective October 26, 2021 and approved the appointment of Armanino LLP as successor auditor effective October 27, 2021.

Business Combination with Urbn Leaf and Loudpack

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

Private Placement

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

Roll Up Financing

On November 29, 2021, in connection with the intended acquisitions of Urbn Leaf and Loudpack, the Company announced that it had signed a non-binding term sheet with Pelorus Equity Group for a total of \$77.3 million of debt financing (the “Roll Up Financing”) which would be used primarily to retire certain existing loans and provide additional working capital to the Company, Urbn Leaf and Loudpack. The Roll Up Financing would contain a nominal interest rate of 10.25%, along with specified origination, closing and other transaction fees, and would be secured by certain real estate assets and cannabis licenses of the Company, Urbn Leaf and Loudpack. It would also be subject to debt service ratio requirements, interest reserves, certain cross-corporate guarantees and defaults, subordination agreements and intercreditor agreements, along with a general corporate guaranty from the Company. The Roll Up Financing is intended to be funded in two tranches, with the first occurring prior to closing on the acquisitions of Urbn Leaf and Loudpack, and the second tranche to be funded to the Company post-closing, at a time of the Company’s choosing. The first tranche is intended to be funded in three separate loans, with one loan each to Urbn Leaf, Loudpack and the Company. The Roll Up Financing also will contain terms so that, in the event that the first tranche is funded and the Company does not close on the acquisitions of Urbn Leaf and/or Loudpack, the Company is no longer obligated to guarantee the specific portion of the first tranche that is related to the acquisition transaction that will not close. The Company intends to enter into a definitive agreement with Pelorus prior to the end of 2021.

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 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 consolidated financial statements; and (ii) the Company’s 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.

COVID-19 Strategy⁵

During the pandemic, the Company has been able to maintain operations and expand delivery services to customers located in Oakland, San Jose and the Greater East Bay and Peninsula areas and increase curbside pick-up and/or drive-thru options at all of its retail locations to provide additional fulfillment models that are safe and efficient for employees and customers. Management has not observed any indicators of impairment to assets or a significant change in the fair value of assets due to the COVID-19 pandemic. While the Company has not experienced any failure to secure critical supplies or services, future disruptions in the supply chain are possible and may significantly increase cost. The Company implemented new in-store safety and sanitation protocols in accordance with the guidance of the Center for Disease Control (“CDC”) at all locations to better protect the health and safety of both employees and customers. The Company also emphasized its continued efforts to align labor costs with customer demand, cut all non-essential operational expenses, hold off on any non-accretive operational and capital projects and suspend all non-essential supplier contracts. Ensuring that customers continue to have safe and uninterrupted access to its products, as well as maintaining high quality growth, cultivation, production, and manufacturing capabilities, will be critical to the Company’s success. The Company is re-assessing its response to the COVID-19 pandemic on an ongoing basis. Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact of these developments on all aspects of the business.

Risk Factors

The Company’s results of operations, business prospects, financial position and achievement of strategic plans are subject to a number of risks and uncertainties and are affected by a number of factors which could have a material adverse effect on the Company’s business, financial condition or future prospects. These risks should be considered when evaluating an investment in the Company and may, among other things, cause a decline in the price of the shares. Other than as stated herein, the Company’s risks and uncertainties have not materially changed from those described in the ‘*Risk Factors*’ section in the Company’s MD&A for the year ended December 31, 2020, filed on SEDAR at www.sedar.com.

Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets

On February 8, 2018, the CSA published 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 U.S. as permitted within a particular state’s regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. cannabis industry, or deemed to have “ancillary industry involvement”, all as further described in the Staff Notice.

Currently, the Company’s involvement in the U.S. cannabis industry is “direct” through its operations from the Harborside dispensaries in Oakland, San Jose, San Leandro and Desert Hot Springs, the Terpene Station Dispensary in Oregon, the manufacturing facility in Oakland, the Production Campus and the distribution centers in San Jose and Los Angeles. Disclosures for issuers with “direct” involvement include, but are not limited to, (i) a description of the nature of a reporting issuer’s involvement in the U.S. cannabis industry; (ii) an explanation that marijuana is illegal under U.S. federal law and that the U.S. enforcement approach is subject to change; (iii) a discussion of available guidance from federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities; (iv) a discussion of related risks, such as the risk that third-party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer’s ability to operate in the U.S.; (v) 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; (vi) statement about whether and how the reporting issuer’s U.S. marijuana-related activities are conducted in a manner consistent with U.S. federal enforcement priorities, including whether legal advice has been obtained regarding (A) compliance with applicable state regulatory frameworks and (B) potential exposure and implications arising from U.S. federal law; (vii) a quantification of the issuer’s balance sheet and operating statement exposure to U.S. marijuana related activities; (viii) a summary of the regulations for the U.S. states in which the issuer operates; (ix) an explanation of how the issuer complies with applicable licensing requirements and

⁵ 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”.

regulations in those states; (x) a discussion of the issuer’s program for monitoring ongoing compliance with cannabis laws in those states and the issuer’s internal compliance procedures; (xi) a positive statement indicating that the issuer is in compliance with applicable licensing requirements and regulations in those states; and (xii) a discussion of any non-compliance, citations or notices of violation which may have an impact on the issuer’s license, business activities or operations.

As a result of the Company’s operations, the Company is therefore subject to the requirements of the Staff Notice and accordingly provides the following disclosures:

(i) Nature of Harborside’s direct involvement in the U.S. cannabis industry

The Company operates in and/or has ownership interests in California and Oregon, pursuant to state and local law and regulations. Harborside-branded retail dispensaries in California are located in Oakland, San Jose, San Leandro and Desert Hot Springs. Harborside also owns and operates the Terpene Station Dispensary under the Terpene Station brand, in Eugene, Oregon. Harborside’s retail dispensaries serve both adult-use and medical cannabis customers. The Company also holds a 21% ownership interest in FGW, a company that has the conditional use approval necessary to operate a retail cannabis dispensary and related businesses in the Haight Ashbury area of San Francisco. Under the terms of the FGW Agreement, the Company can convert its convertible note with FGW in order to increase its ownership in FGW to 50.1%. In addition, subject to certain regulatory approvals from the Director of the Office of Cannabis in San Francisco and the negotiation of a definitive agreement, the Company may purchase additional equity of FGW, such that the Company’s ultimate ownership interest in FGW increases to 80%. Taken together, Harborside’s retail dispensaries have over 15 years of operating history, with more than \$400.0 million of historical sales (including gross revenue of approximately \$17.8 million in Q3 2021), and in excess of 300,000 patients and customers served.

Harborside is one of the oldest and most respected cannabis retailers in California, operating four retail dispensaries, a cultivation/production facility and a manufacturing/distribution facility in California along with a dispensary in Oregon. The Company, through its ownership interest in FGW, is currently in the midst of building out an additional dispensary in the Haight Ashbury area of San Francisco, California, which is expected to open in the first quarter of 2022.

Harborside owns and operates the Production Campus in Salinas, California, which enables the Company to produce a wide array of cannabis products that can be offered at varying price points, meeting the ever diverse and changing habits of customers and other dispensaries, manufacturers, and distributors. Harborside also operates the Sublime manufacturing/distribution facility in Oakland, California, which produces consumer packaged products that are sold and shipped to other licensed retailers and distributors throughout the state of California.

The Company also owns the “Harborside”, “Harborside Farms”, “Harborside Farms Reserve”, “KEY”, “Sublime” and “Fuzzies” brands. California is the largest adult-use cannabis market in the U.S.

(ii) Cannabis is still illegal under U.S. federal law

While cannabis containing greater than 0.3% THC by volume (“marijuana”) and cannabis-infused products are legal under the laws of several U.S. states (with vastly differing restrictions), presently the concept of “medical”, “retail” or “adult-use” cannabis does not exist under U.S. federal law, which deems all cannabis (other than industrial hemp) federally unlawful. The FCSA classifies marijuana as a Schedule I drug, making enforcement of federal marijuana prohibition a significant risk. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use and a lack of safety for the use of the drug under medical supervision. As such, cannabis-related practices, or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under U.S. federal law.

The U.S. 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 laws criminalizing the commercialization and use of cannabis preempt state laws that legalize its use for medicinal purposes by patients and discretionary purposes by adults, and regulate the commercial production, distribution and sale of cannabis. Notwithstanding such federal preemption, 36 states, the District of Columbia, Puerto Rico, U.S. Virgin Islands, and Guam allow their residents to use medical marijuana as of the date of this MD&A. Additionally, 16 states – Alaska, Arizona, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Montana, Nevada, New Jersey, New York, Oregon, South Dakota, Vermont and Washington – and the territories of Guam, Northern Mariana Islands, and the District of Columbia have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The constitutional validity of South Dakota’s voter initiative is currently being challenged in state courts, and is pending appeal. Additionally,

as of the time of this writing both Virginia and New Mexico legislatures have enacted adult-use legalization legislation, which in each case is awaiting their respective governor's signature.

(iii) Available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in the jurisdictions where Harborside operates

The U.S. Department of Justice (the "DOJ") has issued official guidance regarding cannabis enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use cannabis. In each instance, the DOJ has stated that it is committed to the enforcement of federal laws and regulations related to cannabis. 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 cannabis (including the Cole Memo, discussed below) 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 U.S. Attorney's Manual. This direction has created broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use cannabis businesses, even if they are not engaged in cannabis-related conduct enumerated by the Cole Memo.

Prior to 2018 and per the Cole Memo issued on August 29, 2013, the DOJ acknowledged that certain U.S. states had enacted laws relating to the use of cannabis and outlined the U.S. federal government's enforcement priorities with respect to cannabis notwithstanding the fact that certain states have legalized or decriminalized the use, sale, and manufacture of cannabis. The Cole Memo was addressed to "All United States Attorneys" from James M. Cole, former Deputy Attorney General of the U.S., indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight 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.

In particular, the Cole Memo noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the DOJ did not provide specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memo standard.

On November 14, 2017, Jeff Sessions, then the U.S. Attorney General, made a comment before the House Judiciary Committee about prosecutorial forbearance regarding state-licensed cannabis businesses. In his statement, Mr. Sessions stated that in accordance to the U.S. federal government's current policy, while states may legalize cannabis for its law enforcement purposes, it remains illegal with regard to federal purposes.

On January 4, 2018, the Cole Memo was rescinded by a one-page memo signed by Mr. Sessions (the "Sessions Memo"). It is the Company's opinion that the Sessions Memo did not represent a significant policy shift as it does not alter the DOJ's discretion or ability to enforce federal cannabis laws, but rather provides additional latitude to the DOJ to potentially prosecute state-legal cannabis businesses even if they are not engaged in cannabis-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 are now 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 was protected against enforcement by enacted legislation from U.S. 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 "*U.S. Federal Budget Rider Protections,*" below). 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” in the Company’s MD&A for the year ended December 31, 2020).

As a result of the Sessions Memo, federal prosecutors may use their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws permitting such activity. No direction was given to federal prosecutors in the Sessions Memo as to the priority they should ascribe to such cannabis 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. Under the Rohrabacher-Farr Amendment, federal prosecutors are prohibited from expending federal funds against medical cannabis activities that are in compliance with state law. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed. In Washington, Annette Hayes, U.S. Attorney for the Western District of Washington, released a statement affirming that her office will continue to investigate and prosecute “cases involving organized crime, violent and gun threats, and financial crimes related to marijuana” and that “enforcement efforts with our federal, state, local and tribal partners focus on those who pose the greatest safety risk to the people and communities we serve.” However, in California, at least one U.S. Attorney has made comments indicating a desire to enforce the FCSA: Adam Braverman, Interim U.S. Attorney for the Southern District of California, has been viewed as a potential “enforcement hawk” after stating that the rescission of the 2013 Cole Memo “returns trust and local control to federal prosecutors” to enforce the FCSA. Additionally, Greg Scott, the Interim U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity: his office published a statement that cannabis remains illegal under federal law, and that his office would “evaluate violations of those laws in accordance with our district’s federal law enforcement priorities and resources”. U.S. Attorney General Jeff Sessions resigned on November 7, 2018.

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 U.S. federal enforcement guidelines and the U.S. states in which the retail cannabis dispensaries operate.

The Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, S. 3032 (2018), which would have protected individuals working in cannabis sectors from federal prosecution, was introduced in June 2018 through bipartisan efforts initiated by then Senator Cory Gardner together with Massachusetts U.S. Senator Elizabeth Warren. Senator Warren won re-election during the 2018 mid-term elections, which suggests she will support the change to federal law regarding cannabis. In addition, constituents of the State of Michigan voted to legalize recreational cannabis, making Michigan the first state in the Midwest U.S. to do so and the 10th in the U.S. overall, demonstrating growing sentiment among Americans towards legalization. Voters in the states of Missouri and Utah also 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 (including CBD and other cannabinoids) from the purview of the FCSA.

William Barr was appointed as the U.S. Attorney General on February 14, 2019. In an April 10, 2019 Senate Appropriations Subcommittee meeting to discuss the Justice Department’s 2020 budget, in response to a question about his position on the proposed STATES Act, Attorney General Barr stated: “Personally, I would still favor one uniform federal rule against marijuana,” “But if there is not sufficient consensus to obtain that then I think the way to go is to permit a more federal approach so states can, you know, make their own decisions within the framework of the federal law. So we’re not just ignoring the enforcement of federal law.” The STATES Act, if it were to pass, would allow states to determine their own approaches to marijuana. Attorney General Barr said the legislation is still being reviewed by his office but that he would “much rather... the approach taken by the STATES Act than where we currently are.” It is unclear what impact this development will have on U.S. federal government enforcement policy. The inconsistency between federal and state laws and regulations is a major risk factor. The newly nominated Attorney General, Merrick Garland, has views that are unclear on this topic. Refer to the discussion under the heading “Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets”.

On September 23, 2019, Attorneys General of 21 states sent another letter to congressional leaders, voicing support for a bipartisan bill that would shield state-legal cannabis programs from federal interference. The letter emphasized that the STATES Act would enable cannabis businesses to access financial services, increasing transparency and mitigating risks associated with operating on a largely cash-only basis. This new letter, led by Attorney General Karl Racine of the District of Columbia, was joined by Attorneys General from Alaska, California, Colorado, Connecticut, Illinois, Iowa, Kentucky,

Maine, Maryland, Massachusetts, Michigan, Minnesota, New Mexico, New York, Nevada, Oregon, Pennsylvania, Rhode Island, Vermont, and Washington State.

On November 21, 2019, the House Judiciary Committee voted 24 to 10 in favor of passing the Marijuana Opportunity Reinvestment and Expungement (MORE) Act of 2019. The bill would effectively put an end to cannabis prohibition in the U.S. on the federal level by removing it from Schedule 1 of the FCSA, and past federal cannabis convictions would be expunged. Additionally, if fully passed, the law would allow the Small Business Administration to issue loans and grants to cannabis-related businesses and provide a green light for physicians in the Veterans Affairs system to prescribe medical cannabis to patients, as long as they abide by state-specific laws.

On November 3, 2020, the U.S. held its 2020 presidential election, and adult-use cannabis legalization was approved via ballot measures in four additional states: Arizona, Montana, South Dakota and New Jersey. Additionally, medical cannabis was legalized via ballot measures in Mississippi and South Dakota, which became the first state to legalize medical and recreational cannabis simultaneously. In total, 15 states and Washington, DC have legalized cannabis for adult-use over the age of 21, while 36 states have legalized cannabis for medical use.

On November 4, 2020, the House passed the MORE Act, the first time that either Congressional house voted to deschedule cannabis from the FCSA and thus decriminalize manufacturing, distribution, and possession. However, the Senate did not act before the end of the 2020 session.

On January 20, 2021, Joseph R. Biden was sworn in as the 46th President of the U.S., having announced a goal during his campaign to decriminalize cannabis possession federally; Democrats maintained their House majority and achieved control of the Senate. On March 10, 2021, House Democrats voted 220 to 211 in favor of passing the American Rescue Plan (ARP) Act, a \$1.9 trillion coronavirus relief package, which is among the largest economic stimulus packages in U.S. history. The ARP Act was signed by President Biden on March 11, 2021. While cannabis companies will likely see increased sales resulting from this third round of federal stimulus payments in the U.S., some industry experts have claimed that cannabis companies may be ineligible for certain small business credit initiatives outlined in the relief package.

In March 2021, New York became the 16th state to legalize adult-use cannabis, both doing so through legislative action. In the same month, Senate Majority Leader Chuck Schumer of New York, and Senators Ron Wyden (OR) and Cory Booker (NJ) met with cannabis industry advocates including the National Cannabis Industry Association and the Minority Cannabis Business Association to announce their intention to introduce legislation in the U.S. Senate that would legalize, tax and regulate commercial cannabis activity at the federal level. While President Biden has supported decriminalization of possession and has not expressed support for descheduling cannabis, Vice President Harris was one of the original sponsors of the MORE Act while she was still serving in the U.S. Senate, and has publicly stated her support for cannabis descheduling. Senate Majority Leader Schumer has indicated the Senate leadership's willingness to champion full cannabis legalization even without the support of President Biden. However, the legislation has not yet been introduced, and its passage is not assured, notwithstanding Democratic control of the federal executive and legislature. As such, such statements of support for descheduling do not materially affect the likelihood of federal enforcement of current cannabis laws against the Company or any other state-licensed cannabis enterprise.

While newly appointed U.S. Attorney General Merrick Garland had previously commented that he would deprioritize enforcement of low-level cannabis crimes such as possession, and that federal reforms are closely tied to the larger issue of social justice for minorities, Attorney General Garland has yet to offer further clarity on how he will enforce federal law or how to deal with states that have legalized medical or recreational cannabis. While bipartisan support is gaining traction on decriminalization and reform, there is no imminent timeline on any potential legislation. There is no guarantee that the Biden Presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with state laws.

Any increase in the U.S. federal government's enforcement of current U.S. federal law could cause adverse financial impact and remain a significant risk to the Company's business, which could in turn have an impact on the Company's operations or financial results. A change in its enforcement policies could impact the ability of the Company to continue as a going concern (see "Risk Factors" in the Company's MD&A for the year ended December 31, 2020).

U.S. Federal Budget Rider Protection

The U.S. Congress has passed appropriations bills (at various times, the "Rohrabacher-Farr Amendment," the "Leahy Amendment" and the "Joyce Amendment," hereinafter the "Budget Rider Protections") each of the last several years to

prevent the federal executive branch (and specifically the DOJ) from using congressionally appropriated funds to enforce the FCSA against regulated medical cannabis businesses operating in compliance with state and local laws, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical cannabis. The Budget Rider Protections were first introduced in 2014 and has been reaffirmed annually since then as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. On September 30, 2021, the amendment was renewed through the signing of a stopgap spending bill, effective through December 3, 2021. It should be noted that this amendment does not apply to adult-use cannabis.

U.S. courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable state law. However, because this conduct continues to violate U.S. federal law, U.S. 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 applicable state law – could be prosecuted for violations of U.S. federal law. Therefore, until Congress amends the FCSA regarding cannabis, enforcement of U.S. federal law remains a significant risk. Any increase in the U.S. federal government’s enforcement of current U.S. federal law could cause adverse financial impact and remain a significant risk to the Company’s business, which could in turn have an impact on the Company’s operations or financial results. A change in its enforcement policies could impact the ability of the Company to continue as a going concern (see “Risk Factors” in the Company’s MD&A for the year ended December 31, 2020).

Other statements made by U.S. federal authorities or prosecutors

In February 2018, former U.S. Attorney Billy Williams told a gathering that included Oregon Governor Kate 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 U.S. federal enforcement priorities for illegal cannabis operations that violate U.S. federal laws, with the first priority to crack down on the leakage of surplus cannabis into bordering states where cannabis is still illegal. The memo also stated that U.S. federal prosecutors will also target keeping cannabis out of the hands of minors, any crimes that involve violence or firearm violations or organized crime, and cultivation that threatens to damage U.S. federal lands through improper pesticide and water usage.

To the knowledge of the Company’s management, there have not been any additional statements or guidance made by U.S. federal authorities or prosecutors regarding the risk of enforcement action in California or Oregon, the state jurisdictions within which Harborside operates.

(iv) Related risks, including disruption of third-party provided services and the imposition of certain restrictions by regulatory bodies on Harborside’s ability to operate in the U.S.

Asset forfeiture risk

As the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which is used in the course of conducting such business, or 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.

Unfavorable tax treatment of cannabis businesses

Under Section 280E of the U.S. 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 are 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 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 Company’s retail sale of cannabis. 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.

Limited trademark protections

Due to the current illegality of cannabis sale or distribution under U.S. federal law, the Company is not able to register any U.S. federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the FCMA, the U.S. 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 U.S. states 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, and growth of the Company's business into other states may be adversely impacted by the Company's inability to pursue U.S. federal trademark registration.

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 criminal prosecution. Since under U.S. federal law the possession, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, 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.

Customs and Border Protection

Foreign investors in the Company and the Company's non-U.S. citizen directors, officers and employees may be subject to travel and entry bans into the U.S. by CBP. Media articles in 2018 reported that certain Canadian citizens had been rejected for entry into the U.S. due to their involvement in the cannabis sector.

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

Admissibility to the U.S. may be denied to any person working or "having involvement in" the cannabis industry, according to CBP. Inadmissibility in the U.S. implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver. Note that while the CBP previously publicized the foregoing policy on its website during the Trump Administration, the agency appears to have archived the webpage.

Ability to access public and private capital, and available financing options to support continuing operations

U.S. federal anti-money laundering laws prohibit the deposit of returns from "specified unlawful activities" (including cannabis sales) into federally and state-chartered banks. The Company is subject to a variety of laws and regulations domestically and in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended and the rules and regulations thereunder, the *Criminal Code* (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada.

The SAFE Banking Act was passed by the U.S. House of Representatives on September 25, 2019 and reintroduced in the House and Senate in March 2021. This bill generally prohibits a federal banking regulator from penalizing a depository institution under federal money-laundering laws for providing banking services to a legitimate cannabis-related business. Specifically, the bill prohibits a federal banking regulator from (i) terminating or limiting the deposit insurance or share insurance of a depository institution solely because the institution provides financial services to a legitimate cannabis-related business; (ii) prohibiting or otherwise discouraging a depository institution from offering financial services to such a business; (iii) recommending, incentivizing, or encouraging a depository institution not to offer financial services to an account holder solely because the account holder is affiliated with such a business; (iv) taking any adverse or corrective supervisory action on a loan made to a person solely because the person either owns such a business or owns real estate or equipment leased or sold to such a business; or (v) penalizing a depository institution for engaging in a financial service for such a business.

As specified by the bill, a depository institution or a Federal Reserve bank shall not, under federal law, be liable or subject to forfeiture for providing a loan or other financial services to a legitimate cannabis-related business.

Notwithstanding that a majority of states have legalized medical cannabis, and the U.S. House’s passage of the SAFE Banking Act, the SAFE Banking Act has not been enacted into law, and there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that the U.S. federal government maintains sole jurisdiction over federally-chartered banks and financial institutions, and that federal law provides that the production and possession of cannabis is illegal under the FCSA, federally-chartered banks cannot accept funds for deposit from businesses involved with the cannabis industry. To date, fewer than 800 banks and credit unions in the U.S. offer financial services to the cannabis industry.

- (v) *Harborside’s U.S. marijuana-related activities are conducted in a manner consistent with U.S. federal enforcement priorities, with legal advice regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law*

As discussed above, and notwithstanding the rescission of the Cole Memo, Harborside continues to conduct its operations in compliance with the DOJ’s most recent expression of U.S. federal enforcement priorities as set forth in the Cole Memo, which in turn presumes compliance with applicable state cannabis laws and regulations as an underlying premise for non-enforcement. In addition to employing in-house legal counsel, Harborside utilizes outside legal counsel to advise the Company on compliance with applicable state regulatory frameworks in the states where its retail dispensaries and production facilities conduct operations, as well as potential exposure and implications arising from developments in U.S. federal law. See the discussion further below for additional detail on how Harborside conducts its operations in full compliance with applicable local and state cannabis laws and regulations in Oregon and California.

Harborside’s balance sheet and operating statement exposure to U.S. marijuana related activities

The following represents the approximate portion of certain assets on Harborside’s unaudited condensed interim consolidated statements of financial position that pertain to U.S. cannabis activities as at September 30, 2021:

Statement of Financial Position Line Items	Percentage (%) which related to holdings with U.S. cannabis-related activities
Cash	43%
Restricted cash	100%
Accounts receivable, net	98%
Inventories	100%
Biological assets	100%
Prepaid expenses	98%
Note receivable – related party	-
Note receivable	100%
Other current assets	100%
Investments and advances	100%
Property, plant and equipment, net	100%
Right-of-use assets	100%
Deposits and other assets	100%
Intangible assets	100%
Goodwill	100%

The following represents the approximate operating exposure on Harborside’s consolidated statements of loss and comprehensive loss that pertain to U.S. cannabis activities for the nine months ended September 30, 2021:

Statement of Loss and Comprehensive Loss Line Items	Percentage (%) which related to holdings with U.S. cannabis-related
Retail revenue, net	100%
Wholesale revenue, net	100%
Manufacturing revenue, net	100%
Cost of goods sold – retail	100%
Cost of goods sold – wholesale	100%
Cost of goods sold – manufacturing	100%
Changes in fair value less costs to sell of biological assets transformation	100%
Realized fair value amounts included in inventory sold	100%
General and administrative expenses	94%
Professional fees	52%
Share-based compensation	100%
Allowance for expected credit losses	100%
Write-downs (recovery) of receivables and investments and advances	100%
Depreciation and amortization	100%
Interest income (expense), net	100%
Other income (expense)	100%
Provisions	100%
Fair value gain in other current assets, derivative liabilities and preferred shares	100%
Foreign exchange gain (loss)	-

Summary of applicable state regulations in California and Oregon

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

California

California passed the first medical cannabis law in U.S., the California Compassionate Use Act (“CUA”), through Proposition 215 in 1996. The CUA created a legal defense to criminal prosecution for the use, possession, and cultivation of cannabis by patients with a valid physician’s recommendation.

California then adopted Medical Marijuana Program Act (*aka* Senate Bill 420) in 2003, establishing not-for-profit medical cannabis patient collectives and retail dispensaries, a limited immunity from arrest for medical cannabis patients and collectives, and a voluntary patient ID card system.

In September of 2015, the California state legislature (the “Legislature”) passed three bills collectively known as the “Medical Cannabis Regulation and Safety Act” (“MCRSA”). MCRSA established a licensing and regulatory framework for medical cannabis businesses in California (which is still reflected in the successor laws discussed below) and permitted the formation and operation of for-profit cannabis businesses for the first time. The licensing system features multiple license types for storefront and delivery retailers, extraction facilities, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Extraction facilities require either a volatile solvent or non-volatile solvent manufacturing license, depending on their specific extraction methodology. Multiple agencies oversee different aspects of the program and businesses require both a state license and local approval to operate.

On November 8, 2016, California residents voted to approve the “Control, Regulate and Tax Adult Use of Marijuana Act” (“AUMA”) to tax and regulate cannabis for all adults 21 years of age and older.

On June 27, 2017, the Legislature passed state Senate Bill No. 94, also known as the “Medicinal and Adult-Use Cannabis Regulation and Safety Act” (“MAUCRSA”), which amalgamated the MCRSA and AUMA frameworks to provide a single uniform statute governing both medical and adult-use cannabis businesses, and authorizing the adoption of regulations, a licensing regime, and state taxes for cannabis businesses in the state. On November 16, 2017, the state introduced initial “emergency” regulations proposed by the BCC (within the California Department of Consumer Affairs), the Manufactured Cannabis Safety Branch (within the California Department of Public Health (“MCSB”)) and CalCannabis (within the California Department of Food and Agriculture (“CalCannabis,”) and together with the BCC and MCSB, the “Licensing Agencies”), which were ultimately adopted. The regulations built on MCRSA and AUMA and reinforced compliance with local laws as a prerequisite to compliance with the state regulations. On January 1, 2018, the new state regulations took effect, and the first legal adult-use cannabis businesses opened in California.

In 2020, Governor Newsom proposed to simplify the regulatory structure by merging the Licensing Agencies into a single, new state department, the Department of Cannabis Control (“DCC”). Effective July 12, 2021, all licensed cannabis businesses in California are regulated by the DCC.

MAUCRSA requires anyone engaged in “commercial cannabis activity”, which includes the cultivation, possession, manufacture, distribution, processing, storing, laboratory testing, packaging, labeling, transportation, delivery, or sale of cannabis and cannabis products, to be licensed (on an annual basis) to perform such activity. To legally operate a medical or adult-use cannabis business in California, cannabis operators must obtain both 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. Vertical integration across multiple license types is allowed under MAUCRSA, although testing laboratory licensees may not hold any licenses other than a laboratory license.

In response to the spread of COVID-19, on March 19, 2020, Governor Gavin Newsom issued Executive Order N-33-20 directing all residents immediately to stay home and remain sheltered, except as needed to maintain continuity of operations of essential critical infrastructure sectors and additional sectors as the State Public Health Officer (the “SPHO”) may designate as critical to protect the health and well-being of all Californians. In accordance with this order, the SPHO designated a list of Essential Critical Infrastructure Workers, which included cannabis workers. In addition, cannabis operations were also deemed essential and encouraged to remain open under the various shelter-in-place orders issued by the applicable local county health officers.

Oregon

In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical cannabis law with an inclusive set of qualifying conditions. In 2013, Oregon enacted House Bill 3460 to create a regulatory structure for existing unlicensed medical cannabis storefront dispensaries. On June 30, 2015, Oregon enacted House Bill 3400, which improved on the existing regulatory structure for medical cannabis businesses and created a licensing process for cultivators and processors. The Oregon Health Authority (“OHA”) is the state agency that licenses and regulates medical cannabis businesses. The medical cannabis regulatory framework is referred to as the Oregon Medical Marijuana Program.

In November of 2014, Oregon voters passed Measure 91, the “Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act,” creating a regulatory and licensing system for adult-use retail cannabis stores and permitting home cultivation of cannabis. The Oregon Liquor and Cannabis Commission (the “OLCC”) licenses and regulates adult-use cannabis businesses. On October 15, 2015, the OLCC published draft recreational cannabis rules, which were adopted 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, due to administrative prerogative and legislative changes. Currently licensed cannabis companies in Oregon are not subject to residency requirements. OAR Division 25 will continue to evolve, subject to OLCC’s review and approval. Local governments may restrict – through reasonable time, place, and manner restrictions – or, under certain conditions, wholly prohibit the establishment of medical dispensaries or processing sites or any adult-use marijuana business within their jurisdiction.

In Oregon, there are six types of commercial cannabis licenses: producer (cultivation), processor (manufacture), wholesaler, retailer (dispensary), laboratory (testing), and research. Extracted oils, edibles, and flower products are permitted. Wholesaling and delivery are also permitted.

Until recently, Oregon law did not limit the number of adult-use cannabis business licenses. The passage of SB 218 in 2019 immediately prohibited the issuance of producer licenses for new applications that were submitted after June 15, 2018. SB 218 will be repealed on January 2, 2022. Also, in late May 2018, OLCC announced a “moratorium” on the processing of new applications of all license types submitted after June 15, 2018 – purportedly until it fully processes the backlog of applications submitted up to and on June 15, 2018 – although, with the exception of producer applications pursuant to SB 218, it continues to accept new applications. License renewals, changes of ownership of licenses, changes of location, and changes in financial interests in licenses remain unaffected by SB 218 or the moratorium.

Like California licensees, holders of cannabis licenses in Oregon are subject to a detailed regulatory scheme encompassing security, staffing, sales, manufacturing standards, testing, inspections, storage, inventory, advertising and marketing, product packaging and labeling, records and reporting, transportation and delivery, tracking of commercial cannabis activity and movement of cannabis and cannabis products across the supply chain, maintaining adequate controls against the diversion, theft, and loss of cannabis or cannabis products, and more. As with all jurisdictions, the full regulations, as promulgated by each applicable licensing agency, should be consulted for further information about any particular operational area.

Similar to California, Governor Brown also deemed cannabis an essential business in Oregon and has allowed cannabis operators to remain open during the COVID-19 pandemic.

(vi) How Harborside complies with applicable licensing requirements and regulations in California and Oregon

The Company is duly licensed and permitted to cultivate, manufacture, distribute, sell and deliver wholesale and retail cannabis and cannabis products pursuant to state and local laws and regulations. Harborside files all ownership disclosures, reports, notices and other submissions to the applicable licensing agencies required to maintain its current licenses and permits in good standing, and pays any licensing and permitting fees due in connection therewith.

The Company’s cannabis goods are all produced in full compliance with all applicable state laws and regulations. The goods are tested for potency and safety by independent laboratories licensed by the DCC, and all other consumer protection and youth access-prevention laws are adhered to, including but not limited to state packaging, labeling, marketing and advertising laws. All applicable local and state cannabis taxes are paid and remitted to the applicable taxing authorities. In order to satisfy regulations intended to prevent diversion to the illicit market, the Company employs inventory control and reporting systems that document the present location, amount, and a description of all cannabis goods at all Harborside entities. All cannabis goods are tracked from seed to shelf using METRC, and other integrated systems adopted by the Company. Cannabis inventory is regularly manually reconciled against METRC according to the regulations. The Company performs regular monthly manual inventory reconciliations.

Additionally, the Company has undertaken extensive measures to ensure the security of the Company, its facilities, its inventory, its staff and its customers, and its community. Every licensed facility has strict access control, thorough camera coverage, and burglar alarms. These controls are supported by on-site security in certain instances.

Finally, the Company employs an in-house Quality and Compliance (“QC”) team to ensure compliance with all other applicable state and local regulations by individual employees and Harborside entities, and the Company as a whole. The QC team’s compliance work is discussed in further detail below.

(vii) Harborside’s program for monitoring ongoing compliance with California and Oregon cannabis laws and Harborside’s internal compliance procedures

The Company’s compliance program includes an in-house QC team dedicated to ensuring compliance with applicable local, U.S. state and federal laws on an ongoing basis. The Company presently employs two individuals on its QC team, and several additional employees whose job function includes some aspect of compliance. The QC team is tasked with carrying out various compliance-related tasks, including:

- ongoing review of Company’s policies, procedures and controls to ensure alignment with local and state rules and regulations;
- ongoing training on the Company’s policies, procedures and controls, local and state rules and regulations, and the basic elements of the QC program for all staff (with supplemental trainings tailored for staff with specialized job functions, on an as needed basis);
- monthly internal audits of Company processes and procedures; and

- facility inspections to ensure compliance with the Company's policies, procedures and controls, and applicable local and state rules and regulations.

The QC team monitors state and federal law through routine review of regulatory websites, communication with regulatory authorities, and subscription to numerous industry resources that are focused on legal and compliance related issues. As rules or regulations are adopted, the QC team updates policies and procedures as appropriate and disseminates written guidance to all Harborside entities.

The Company also employs government relations professionals to help monitor the changing landscape of state and local law, while employing external legal counsel that assist in the monitoring, notification, and interpretation of any changes in the jurisdictions in which it operates. Such counsel regularly provides legal advice to the Company on maintaining compliance with state and local laws and regulation and the Company's legal and compliance exposures under U.S. federal law.

(viii) Confirmation that Harborside is in compliance with applicable licensing requirements and regulations in California and Oregon

As of the date of this MD&A, Harborside is in compliance with applicable licensing requirements and regulations in both California and Oregon.

(ix) Non-compliance, citations or notices of violation which may have an impact on Harborside's license, business activities or operations.

As of the date of this MD&A, the Company has not received any notices of violation, denial or non-compliance from any U.S. state authorities imposing any material restriction and/or fines on Harborside's operations.

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 Q3 2021 Financial Statements in all material aspects.

Approval

The Audit Committee has reviewed the Q3 2021 Financial Statements and this MD&A with management of the Company. At the recommendation of the Audit Committee, the Board of the Company has approved the Q3 2021 Financial Statements and the disclosures contained in this MD&A.

November 29, 2021

Matthew Hawkins
Interim CEO and Director