



# Harborside Inc. Completes Restatement of 2017 and 2018 Annual Financial Statements and Files 2019 Annual Financial Statements

*Second Quarter 2020 Preliminary Results Demonstrate Continued Strong Performance*

*Company reaffirms positive adjusted EBITDA expectations for Q1 2020*

*Q1 2020 Financial Results to be completed by end of August 2020*

*Company expects Cash Position of approximately \$13.4 million at June 30, 2020*

OAKLAND, Calif. and TORONTO, Aug. 10, 2020 /CNW/ - Harborside Inc. ("Harborside" or the "Company") (CSE: HBOR), a California-focused, vertically integrated cannabis enterprise, today announced the filing of the Company's audited annual financial statements and corresponding management's discussion and analysis for the year ended December 31, 2019 (collectively, the "Annual Filings") and the restated annual financial statements for years ended December 31, 2017 and 2018 (the "Restated Financial Statements"). The Restated Financial Statements and Annual Filings are available for download from the Company's investor website, [investharborside.com](http://investharborside.com), and on the Company's [SEDAR profile](#).

The Company also announced that it intends to file the interim financial statements and corresponding management's discussion and analysis for the period ended March 31, 2020 (collectively, the "Q1 Filings") before the end of August 2020. However, no assurance can be given that the anticipated timing of filing will be met due to the unprecedented impact of the COVID-19 pandemic on the Company and its employees, the need for management to complete their work, and the Company's ability to rely on timely information in relation to its financial reporting obligations, among other things. Harborside expects that upon completion of the Q1 Filings, it will apply to have the previously-disclosed cease trade order (the "CTO") revoked.<sup>(2)</sup> Trading is expected to resume on the Canadian Securities Exchange ("CSE") shortly after the revocation of the CTO.<sup>(2)</sup>

The Company also provided an update regarding preliminary unaudited results for its second quarter ended June 30, 2020 ("Q2 2020"). All dollar amounts in this press release are in U.S. dollars.

## **Management Commentary**

"The 2019-year end audit and the restatement of prior periods has been an extensive process primarily due to the complexity of historical accounting prior to our RTO listing. This was both a significant and very important undertaking to complete and I'd like to thank our team and our auditors for their work to get this over the finish line," said Peter Bilodeau, Chairman and Interim CEO. "In the net result of the 2017-2018 restatement, the changes are accounting treatments to previously disclosed transactions. The 2019 audited financial statements include the impacts of three acquisitions which have been accounted for in accordance with IFRS 3. The impacts include increasing the provision for an uncertain tax position related to IRC Section 280E.<sup>(4)</sup> Despite the increased 280E tax reserve, Harborside is actively appealing to the Ninth Circuit Court of Appeals and it is management's and litigation counsel's view that significantly less is expected to be owed."<sup>(2)</sup>

Mr. Bilodeau continued, "With the audit process firmly behind us, our focus continues to be on the very bright future that Harborside has as one of the most well established, vertically integrated cannabis companies in the lucrative California market. I am very pleased with the significant performance improvements we have made throughout the first half of 2020, in particular our preliminary Q2 2020 top-line revenue and adjusted EBITDA<sup>(1)</sup> showing continued profitable growth."<sup>(2)</sup>

Mr. Bilodeau added, "As we look ahead to the remainder of this year, we remain on track to achieve our goals of further cementing our position as a leader in the California cannabis market, while expanding the reach of our high-quality brands and products to consumers across the state."<sup>(2)</sup>

## **Update and Preliminary 2020 Results and Highlights<sup>(2)(3)</sup>**

|                                | Previously-Reported Fiscal 2019 Results | Actual Fiscal 2019 Results | Preliminary First Quarter 2020 Results | Preliminary Second Quarter 2020 Results |
|--------------------------------|---|----------------------------|--|---|
| Gross Revenue                  | approx. \$50 million                    | approx. \$50 million*      | approx. \$14 million                   | approx. \$16 million                    |
| Adjusted EBITDA <sup>(1)</sup> | negative                                | negative                   | positive                               | positive                                |

\* As at December 31, 2019, the Company recorded approximately \$410,000 related to loyalty programs, which reduced gross revenue from \$49.9 million to \$49.45 million. Please see the Annual Filings for further discussion of the Company's loyalty program.

The Company reaffirms its expectations for its first quarter ended March 31, 2020, as previously announced on April 23, 2020. Revenue for Q2 2020 is expected to increase approximately 28% year-over-year to approximately \$16 million, before adjustments for cultivation excise taxes. The year over year increase was driven by approximately 4% growth in retail revenue and approximately 244% growth in wholesale revenue. The continued growth in retail reflects the Company's enhanced merchandising and pricing initiatives which resulted in, amongst other things, improved product mix, selected pricing changes and higher sell-through of internally-produced products. Across Harborside's retail stores in California, the Company's branded products represented seven to nine of the 20 top-selling SKUs in Q2 2020.

Wholesale growth was primarily driven by improved harvest yields and higher sales volumes at the Company's farm operation in Salinas, California, benefiting in part by the Company's new state-of-the art 44,000 square foot Dutch Venlo greenhouse cultivation facility.

Adjusted EBITDA<sup>(1)</sup> is expected to be positive, driven largely by improved operating efficiencies and headcount reductions across the Company. For the Company's retail operations, gross margin<sup>(1)</sup> improved from 2019 to year to date 2020.

## **Liquidity and Cash Balance<sup>(2)(3)</sup>**

As of June 30, 2020, Harborside expects to show that it had approximately \$13.4 million in cash. The projected increase in cash balance since the first quarter of 2020 included a delay in payment of approximately \$1.6 million of sales taxes that are due to the state of California. Payment of these taxes was postponed by the state as part of their COVID-19 business relief program and the funds are now expected to be remitted by the end of October 2020.

These preliminary and unaudited operating metrics and financial results are subject to the Company's customary annual and interim financial statement closing procedures by the Company and its auditors. Actual results could be affected by subsequent events or determinations. While the Company believes there is a reasonable basis for these preliminary financial results, the results involve known and unknown risks and uncertainties that may cause actual results to differ materially. These preliminary fiscal results represent forward-looking information. See "Cautionary Note Regarding Forward-Looking Information" below.

## **Conference Call Information**

Harborside will host a conference call Friday, August 14, 2020, to discuss the filings of the Restated Financial Statements and Annual Filings. Peter Bilodeau, Interim Chief Executive Officer, and Tom DiGiovanni, Chief Financial Officer will host the call starting at 4:00 p.m. Eastern time. A question and answer session will follow management's presentation.

Date: Friday, August 14, 2020  
Time: 4:00 p.m Eastern Time  
Dial-In Number: 1 (888) 664-6392  
Conference ID: 54919638  
Webcast: [Click Here to Access](#)  
Replay: (855) 859-2056 or (404) 537-3406

Available until 11:30 p.m Eastern Time Wednesday, August 28, 2020

**For the latest news, activities, and media coverage, please visit the Harborside corporate website at [www.investharborside.com](http://www.investharborside.com) or connect with us on LinkedIn, Facebook, and Twitter.**

**About Harborside:** Harborside Inc. is one of the oldest and most respected cannabis retailers in California, operating three of the major dispensaries in the San Francisco Bay Area, a dispensary in the Palm Springs area outfitted with Southern California's only cannabis drive-thru window, a dispensary in Oregon and a cultivation/production facility in Salinas, California. Harborside has played an instrumental role in making cannabis safe and accessible to a broad and diverse community of California consumers. Co-founded by Steve DeAngelo and dress wedding in 2006, Harborside was awarded one of the first six medical cannabis licenses granted in the United States and today holds cannabis licenses for retail, distribution, cultivation, nursery and manufacturing. Harborside is currently a publicly listed company on the CSE trading under the ticker symbol "HBOR". Additional information regarding Harborside is available under Harborside's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### **Non-IFRS Measures, Reconciliation and Discussion**

This press release may contain references to "EBITDA", "Adjusted EBITDA", and "Gross Margin", which are non-IFRS financial measures.

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

Gross Margin is the difference between revenue and cost of goods sold divided by revenue and is expressed as a percentage. Management believes this measure provides useful information as it represents the value of incremental sales.

There are no comparable IFRS financial measures presented in Harborside's financial statements. Reconciliations of the supplemental non-IFRS measures will be presented in the Company's management's discussion and analysis for December 31, 2019, and first and second quarters of 2020. These non-IFRS financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believes that the non-IFRS financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. The Company believes that these supplemental measures provide information which is useful to shareholders and investors in understanding our performance and may assist in the evaluation of the Company's business relative to that of its peers.

These non-IFRS financial measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the IFRS financial measures presented in the Company's financial statements. For more information, please see "Non-IFRS Measures" in the Company's management's discussion and analysis for December 31, 2019, and March 31, 2020, which will be available on [www.sedar.com](http://www.sedar.com).

### **Notes:**

1. This is a non-IFRS reporting measure. For a reconciliation of this to the nearest IFRS measure, see "Use of Non-IFRS Measures" and "Non-IFRS Measures" in the Company's management discussion and analysis for December 31, 2019, and March 31, 2020, to be filed by the end of August, 2020.
2. This is forward-looking information and based on a number of assumptions. See "Cautionary Note Regarding Forward-Looking Information".
3. The financial information included in this press release is neither audited nor reviewed. Where possible, the information has been constructed by management from available audited or audit reviewed financial statements. Where no audited or audit reviewed information has been available, additional management accounting information has been utilized to construct financial information.
4. Refer to note 17 of the annual financial statements for the year ended December 31, 2019 for more detailed information on this matter.

### **Cautionary Note Regarding Forward-Looking Information**

This news release contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking statements") within the meaning of the applicable Canadian securities legislation. All statements, other than statements of historical fact, are forward-looking statements and are based on expectations, estimates and projections as at the date of this news release. Any statement that involves discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, future events or performance (often but not always using phrases such as "expects", or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "budget", "scheduled", "forecasts", "estimates", "believes" or "intends" or variations of such words and phrases or stating that certain actions, events or results "may" or "could", "would", "might" or "will" be taken to occur or be achieved) are not statements of historical fact and may be forward-looking statements. In this news release, forward-looking statements relate to, among other things, the timing of filing the Q1 Filings, the revocation of the CTO, the resumption of trading on the CSE, expectations regarding 280E amounts owed, and the information under the headings "Update and Preliminary 2020 Results and Highlights" and "Liquidity and Cash Balance"

These forward-looking statements are based on reasonable assumptions and estimates of management of the Company at the time such statements were made. Actual future results may differ materially as forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to materially differ from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors, among other things, include: management's perceptions of the anticipated timeline in which the Q1 Filings can be filed, and the CTO be revoked; implications of the COVID-19 pandemic on the Company's operations; fluctuations in general macroeconomic conditions; fluctuations in securities markets; expectations regarding the size of the California cannabis market and changing consumer habits; the ability of the Company to successfully achieve its business objectives; plans for expansion; political and social uncertainties; inability to obtain adequate insurance to cover risks and hazards; and the presence of laws and regulations that may impose restrictions on cultivation, production, distribution and sale of cannabis and cannabis related products in the State of California; and employee relations. Although the forward-looking statements contained in this news release are based upon what management of the Company believes, or believed at the time, to be reasonable assumptions, the Company cannot assure shareholders that actual results will be consistent with such forward-looking statements, as there may be other factors that cause results not to be as anticipated, estimated or intended. Readers should not place undue reliance on the forward-looking statements and information contained in this news release. The Company assumes no obligation to update the forward-looking statements of beliefs, opinions, projections, or other factors, should they change, except as required by law.

The Company is indirectly involved in the manufacture, possession, use, sale and distribution of cannabis in the recreational and medicinal cannabis marketplace in the United States. Local state laws where the Company operates permit such activities however, these activities are currently illegal under United States federal law. Additional information regarding this and other risks and uncertainties relating to the Company's business are contained under the heading "Risk Factors" in the Listing Statement dated May 30, 2019, filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

**The CSE has neither approved nor disapproved the contents of this news release. Neither the CSE nor its Market Regulator (as that term is defined in the policies of the CSE) accepts responsibility for the adequacy or accuracy of this release.**

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