



# Harborside Inc. Reports Third Quarter 2020 Financial Results

*Generates 21.2% Sequential Revenue Growth, with Record Gross Revenues of \$19.6 Million and Continued Positive Adjusted EBITDA <sup>(1)</sup> of \$4.5 million*

*Reports Strong Combined Gross Margin of 54.7% <sup>(1)</sup> Driven by Improved Harvest Yields and Higher Wholesale Volumes*

*Expects Full Year Gross Revenues of Approximately \$61 Million - \$63 Million with Adjusted EBITDA of 8-10% <sup>(1)(2)</sup>*

OAKLAND, CA and TORONTO, Nov. 18, 2020 /CNW/ - Harborside Inc. ("Harborside" or the "Company") (CSE: HBOR) (OCTQX: HBORF), a California-focused, vertically integrated cannabis enterprise, today reported its financial results for the period ending September 30, 2020 ("Q3 2020"). The Q3 2020 financial report and corresponding management's discussion and analysis (collectively the "Q3 Filings") are available for download from the Company's investor website, [investharborside.com](http://investharborside.com), and on the Company's [SEDAR profile](#). Unless otherwise indicated, all dollar amounts in this press release are in U.S. dollars.

## Management Commentary

"We've implemented strong operational improvements that have continued our progress towards long term profitability and sustained growth. Harborside continues to be one of the leaders in the Northern California market," said Peter Bilodeau, Chairman, and interim Chief Executive Officer. "As our production capacity is expected to ramp up in early 2021, following the completion of the planned upgrades at our Salinas greenhouse facility, we expect to be well-positioned to accelerate our growth and continue to gain wholesale market share. I'm thrilled with how far Harborside has come this year and look forward to further growth in 2021." <sup>(2)</sup>

## Q3 2020 Financial Results and Highlights <sup>(2)(3)</sup>

	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Retail Revenues	\$10,681,897	\$10,940,143	\$10,181,471	\$9,511,221
Wholesale Revenues <sup>(a)</sup>	\$8,890,723	\$5,208,439	\$4,456,775	\$2,185,701
<b>Total Gross Revenues<sup>(a)</sup></b>	<b>\$19,572,620</b>	<b>\$16,148,582</b>	<b>\$14,638,246</b>	<b>\$11,696,922</b>
Retail Gross Profit <sup>(e)</sup>	\$5,353,429	\$5,601,565	\$5,219,890	\$4,903,947
Wholesale Gross Profit <sup>(a)(e)</sup>	\$5,360,764	\$2,435,952	\$787,964	-\$1,373,186
<b>Total Gross Profit<sup>(a)(e)</sup></b>	<b>\$10,714,193</b>	<b>\$8,037,517</b>	<b>\$6,007,854</b>	<b>\$3,530,761</b>
Retail Gross Margin <sup>(b)(e)</sup>	50.10%	51.20%	51.30%	51.60%
Wholesale Gross Margin <sup>(a)(e)</sup>	60.30%	46.80%	17.70%	-62.80%
<b>Total Gross Margin<sup>(e)</sup></b>	<b>54.70%</b>	<b>49.80%</b>	<b>41.00%</b>	<b>30.20%</b>
G&A/Professional Fees <sup>(c)(d)</sup>	\$6,783,987	\$6,764,781	\$5,786,573	\$7,621,971
Adjusted EBITDA <sup>(e)</sup>	\$4,473,046	\$642,025	\$431,562	-\$2,796,178

- NOTES:**
- Not including excise taxes or biological asset adjustments.
  - Retail gross margin in Q1 2020 and Q2 2020 are slightly affected by additional expenditures on personal protective equipment and other safety measures due to the COVID-19 pandemic. Retail gross margin in Q2 2020 and Q3 2020 include additional pay for the Company's front line workers and expenses relating to the impacts of the civil unrest in the Bay Area to certain of the Company's retail stores.
  - Professional Fees for the fourth quarter of 2019 include approximately \$953,000 in one-time fees and accruals for legal matters
  - Professional Fees for Q2 2020 and Q3 2020 include approximately \$977,000 and \$1,115,000, respectively, in one-time costs relating to the audits and restatements of certain of the Company's previous financial statements.
  - 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 September 30, 2020.

## Q3 2020 Financial Summary

During Q3 2020, Harborside generated total gross revenues of approximately \$19.6 million. This represented 21.2% sequential growth over the second quarter of 2020 ("Q2 2020") and a 42.9% year-over-year increase when compared to the approximately \$13.7 million of gross revenues reported in the period ending September 30, 2019 ("Q3 2019"). Combined gross profit before excise taxes and adjustments for biological assets was approximately \$10.7 million, an 85.8% year-over-year increase as compared to the \$5.8 million reported in Q3 2019. On a year over year basis, combined gross margins increased from 42.1% in Q3 2019 to 54.7% in Q3 2020<sup>(1)</sup>.

Harborside's wholesale operations reported gross wholesale revenues of approximately \$8.9 million, representing 70.7% sequential growth compared to Q2 2020 and a year-over-year increase of 169.4% as compared to the approximately \$3.3 million in gross revenues reported for Q3 2019. The year-over-year increase in gross wholesale revenues was primarily due to improved harvest yields and production of premium flower, higher sales volumes, and higher average prices per pound at the Company's 47-acre integrated production campus in Salinas, California (the "Salinas Facility"). As compared to gross wholesale revenues, wholesale gross margins increased from -22.1% in Q3 2019 to 60.3% in Q3 2020<sup>(1)</sup>.

The Company's retail operations generated revenues of approximately \$10.7 million, a 2.8% increase as compared to the approximately \$10.4 million realized in Q3 2019, with gross margins improving from 48.5% to 50.1% on a year-over-year basis, despite increased costs for safety and staffing related to COVID-19 and inventory losses experienced during the civil unrest that occurred in the Bay Area.<sup>(1)</sup> The year-over-year increase in retail revenue was driven primarily by 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 from 9 to 14 of the 25 top-selling SKUs in Q3 2020.

Total operating expenses for Q3 2020 were approximately \$7.8 million, including \$1.15 million in one-time costs related to the audit and restatement of prior year financials. This was a 7.5% year-over-year decrease when compared to approximately \$8.5 million of costs incurred in Q3 2019. The year-over-year decrease in operating expenses is primarily related to a decrease in general and administrative expenses of \$1.1 million to \$4.1 million as compared to \$5.2 million in Q3 2019, a decrease in allowance for credit losses of \$0.3 million, and a decrease in write-downs of receivables, investments and advances of \$1.3 million, as no impairments were recorded on any of the Company's investments in Q3 2020.

During Q3 2020, the Company also recorded an income tax provision of \$1.8 million, compared to \$1.3 million in Q3 2019, based on estimated federal income taxes payable at period-end.

Operating Income for Q3 2020 was approximately \$0.8 million, compared to an operating loss of approximately \$3.6 million for Q3 2019. Net loss and comprehensive loss was \$2.4 million, compared to a net loss and comprehensive loss of \$1.9 million in Q3 2019, a 24.2% decrease on a year-over-year basis. The year over year decrease was due primarily to additional income tax provisions and related interest expense booked during Q3 2020.

Adjusted EBITDA<sup>(1)</sup> for Q3 2020 was approximately \$4.5 million, compared to a negative EBITDA<sup>(1)</sup> of approximately \$0.9 million for Q3 2019, with the year over year increase being driven largely by improved operating efficiencies and headcount reductions across the Company. See "Non-IFRS Financial Measures, Reconciliation, and Discussion."

#### **Q4 2020 and Full Year Expectations**<sup>(2)(4)</sup>

The Company expects Q4 2020 gross revenues to follow a more historically typical seasonal pattern, with lower flower production and wholesale revenues, resulting in total combined gross revenues of \$11 million to \$12.5 million for the fourth quarter, with EBITDA<sup>(1)</sup> for the quarter close to breakeven. For the full year ended December 31, 2020, the Company expects gross revenues in the range of approximately \$61 - \$63 million, with Adjusted EBITDA<sup>(1)</sup> for the year in the range of 8 – 10% of revenues.

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

As of September 30, 2020, Harborside had approximately \$13.3 million in cash. The increase in cash balance since the second quarter of 2020 included a delay in payment of approximately \$1.6 million of sales taxes that were 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, in accordance with state guidelines, the funds were ultimately remitted at the end of October 2020.

#### **Recent Operational Highlights**

**Wholesale Operations:** Harborside recently announced planned cultivation facility upgrades at the Salinas Facility. The planned upgrades include, among other things, the installation of blackout curtains and supplemental LED grow lights at the Salinas Facility. Following the successful completion of these upgrades, the Company expects an approximately 50% increase in production, an expected approximately 10% increase in bulk wholesale revenue capacity, and an approximately 7% increase in the total productive capacity, on an annualized basis<sup>(2)(4)</sup>. The upgrades are expected to be completed within the first quarter of 2021<sup>(2)</sup>.

In furtherance of its brand strategies, Harborside announced that two of its award-winning in-house brands, Harborside Farms and Key, introduced new product offerings for the market. Key has added 'Key Mini Pre-Rolls', a

pack of seven 0.5g strain specific pre-rolls, to its product suite. These mini pre-rolls use flower that is sustainably grown in Harborside's state of the art greenhouses using proprietary techniques. Key also recently offered a new seasonal SKU, 'Limited Edition Skeleton Key Mini Pre-Rolls', a nighttime blend of G4 OG and Gelato 33 packed in seven 0.5g mini pre-rolls. Harborside Farms has also added 'Harborside Farms Quarter Ounces', which offers strain-specific and single-origin flower from Harborside Farms. The Company also recently commenced sales of clones grown at its Salinas Facility at all Harborside branded retail locations, including Desert Hot Springs.

**Capital Markets:** During Q3 2020, the Company commenced trading on the OTCQX under the ticker symbol of "HBORF" and, subsequent to the quarter end, Harborside received depository trade clearance (DTC) eligibility.

**Acquisitions:** Subsequent to Q3 2020, Harborside announced it had executed a definitive agreement with FGW Haight, Inc. ("FGW") to acquire majority ownership FGW, which holds a dispensary license in the historic Haight-Ashbury District of San Francisco, where the Company expects to start operations in the second quarter of 2021<sup>(2)</sup>.

### **Secured Indemnity**

On November 17, 2020, the Company and its subsidiaries entered into a guaranty and security agreement to guarantee and secure the obligations of the Company to defend and to indemnify its directors and officers (collectively, the "**Secured Indemnity**"). The Secured Indemnity is intended to supplement coverage available under existing directors and officers insurance maintained by the Company in order to mitigate concerns about claims and potential claims against directors and officers and whether the available insurance applies to and will satisfy in full such claims and potential claims. The scale and complexity of the Company's operations in a highly regulated sector requires that the directors and officers managing those operations be committed to the performance of their duties without undue or inappropriate distractions. In management's view, concerns about claims and potential claims and adequacy of insurance may detract from the performance of the directors and officers involved in the Company's operations or lead to their resignations, which would disrupt the Company's business. The Board has therefore determined that it is in the best interests of the Company and its subsidiaries to enter into the Secured Indemnity in order to induce the directors and officers to perform their duties to the Company, provide comfort to the directors and officers involved in the Company's operations and to encourage their ongoing services.

The Secured Indemnity constitutes a "related party transaction" under Multilateral Instrument 61-101 - *Protection of Minority Securityholders in Special Transactions* ("**MI 61-101**"). The Company is relying on the exemptions from the valuation and the minority approval requirements of MI 61-101 provided for in subsections 5.5(a) and 5.5 (b) and subsection 5.7(a) of MI 61-101, respectively, as the Company's shares are not listed on specified markets and neither the fair market value of the subject matter of, nor the fair market value of the consideration for, the Secured Indemnity, in relation to the interested parties, will represent more than 25% of the Company's market capitalization, as determined in accordance with MI 61-101.

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

### **About Harborside:**

Harborside Inc., a vertically integrated enterprise with cannabis licenses covering retail, distribution, cultivation, nursery, and manufacturing, is one of the oldest and most respected cannabis companies in the world. Founded in California in 2006, Harborside was awarded one of the first six medical cannabis licenses granted in the United States. Today, the company operates three 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 an integrated cultivation/production facility in Salinas, California. Harborside continues to play an instrumental role in making cannabis safe and accessible to a broad and diverse community of California and Oregon consumers. Harborside is currently a publicly listed company, trading on the CSE under the ticker symbol "HBOR" and the OTCQX under the ticker symbol "HBORF". 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", "Gross Profit", 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 Profit is the difference between revenue and cost of goods sold. Gross Margin is the difference between revenue and cost of goods sold divided by revenue and is expressed as a percentage. Management believes that these measures provide 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 are presented in the Company's management's discussion and analysis for September 30, 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 "Use of Non-IFRS Measures" and "Non-IFRS Measures" in the Company's management's discussion and analysis for September 30, 2020, which is available under the Company's profile 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 September 30, 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. These targets, and the related assumptions, involve known and unknown risks and uncertainties that may cause actual results to differ materially. While Harborside believes there is a reasonable basis for these targets, such targets may not be met. These targets represent forward-looking information. Actual results may vary and differ materially from the targets. See "Cautionary Note Regarding Forward-Looking Information" and "Assumptions" below.

#### **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 include, among other things, statements with respect to future company performance, growth, profitability, production capacity and gain in market share, the Company's corporate strategy moving forward, and the information under the headings "Recent Operational Highlights", "Q3 2020 Financial Results and Highlights", "Q4 2020 and Full Year Expectations", 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: 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 cannabis markets where the Company operates; 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; employee relations 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 markets where the Company operates. 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, through several of its subsidiaries, 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, and in the Company's management's discussion and analysis for the period ended September 30, 2020, filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).


This news release does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States. The Company's securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States or to U.S. Persons unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available.

### **Assumptions**

In developing the financial guidance set forth above, Harborside made the following assumptions and relied on the following factors and considerations:


- The targets are based on Harborside's historical results including its year to date consolidated results of operations.
- The targets are subject to cultivation improvement plans anticipated to come online in the last quarter of 2020 and during 2021.
- Targeted revenue at our retail dispensaries through the end of the year is based on our YTD results.
- Both retail and wholesale revenue sustainability and growth depend on a variety of factors, including among other things, location, competition, legal and regulatory requirements. Prices are projected forward at recently realized wholesale and retail prices.
- Cost of goods sold, before taking into account the impact of value changes in biological assets (which are non-cash in nature, and, accordingly, are excluded from calculations of Adjusted EBITDA), have been projected based on estimated costs of production and capacity available from a vertically-integrated supply chain. Cost of goods sold relating to inventory purchased from third parties have been projected in line with historical levels.
- Selling, general and administrative expenses through the end of 2020 are assumed to remain consistent through the end of 2020, but to decrease as a percentage of revenues due to inherent scalability of selling, general and administrative expenses and our cost cutting initiatives outlined above. Additionally, total selling, general and administrative expenses include an allocation for corporate overhead and public company costs.

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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