



Harborside Inc. Reports Third Quarter 2021 Financial Results

Third Quarter 2021 Gross Revenues Increased 10.4% Sequentially to \$17.9 Million

Seventh Consecutive Quarter of Positive Adjusted EBITDA⁽¹⁾

/NOT FOR DISTRIBUTION TO UNITED STATES NEWSWIRE SERVICES OR FOR RELEASE PUBLICATION, DISTRIBUTION OR DISSEMINATION DIRECTLY, OR INDIRECTLY, IN WHOLE OR IN PART, IN OR INTO THE UNITED STATES./

OAKLAND, Calif. and TORONTO, ON, Nov. 29, 2021 /CNW/ - Harborside Inc. ("Harborside" or the "Company") (CSE: HBOR) (OTCQX: HBORF), a California-focused, vertically integrated cannabis enterprise, today reported its financial results for the third quarter ending September 30, 2021 ("Q3 2021"). The unaudited condensed interim consolidated financial statements for Q3 2021 and corresponding management's discussion and analysis (collectively the "Q3 Filings") are available for download from the Company's investor website, investharborside.com, and on the Company's [SEDAR profile](#). Unless otherwise indicated, all dollar amounts in this press release are denominated in U.S. currency.

Management Commentary

"While bulk prices declined across the state of California in the third quarter, we continued to make improvements to our business, including the expansion of our wholesale presence throughout California through the integration of Sublime into our operations. I'm pleased that we continue to deliver positive adjusted EBITDA⁽¹⁾ as we relentlessly focus on our customers and work on improving capital efficiency throughout the business," said Matt Hawkins, Chairman and Interim CEO of Harborside.

Mr. Hawkins added, "I'd like to thank our team for their ongoing dedication to achieving our business goals while working tirelessly behind the scenes to push our recently announced business combination with Urbn Leaf and Loudpack towards the finish line." As announced earlier today, the Company has entered into definitive agreements to acquire UL Holdings Inc. ("Urbn Leaf"), a top California cannabis retailer with a dominant position in Southern California and LPF JV Corporation ("Loudpack"), a leading manufacturer, cultivator and distributor of award-winning cannabis brands in California. On completion of the acquisitions, subject to shareholder and regulatory approval, Harborside is expected to be renamed StateHouse Holdings ("StateHouse") and to trade under a new symbol (CSE: STHZ).⁽²⁾

Management believes that StateHouse will be the largest and most developed cannabis platform in the state of California with superior retail, brands, processing, manufacturing, distribution and cultivation. Management believes that StateHouse will have the highest estimated annual revenue and brand market share among its current publicly-listed California peers⁽⁵⁾, providing the Company with a strong platform for growth as a consolidator of California's cannabis industry. Through the first nine months of 2021, Harborside, on a pro-forma basis including Sublimation Inc. ("Sublime") for the entire period, had gross revenue of \$57.8 million⁽⁴⁾, while Urbn Leaf and Loudpack had revenue of \$45.9 million and \$61.4 million, respectively.⁽⁴⁾ Therefore, on a pro forma basis, management

estimates that StateHouse would have generated gross revenue of approximately \$165 million for the same period.⁽⁴⁾ Ed Schmults, the current CEO of Urbn Leaf, is expected to be appointed as CEO of StateHouse upon completion of the Urbn Leaf transaction and will be joining the Board of Directors of Statehouse. Marc Ravner, the current CEO of Loudpack, is expected to be appointed as President of StateHouse upon completion of the Loudpack transaction and will be joining the Board of Directors of StateHouse.

Q3 2021 Operational Highlights

- Total gross revenue was \$17.9 million, 10.4% higher sequentially than the previous quarter
- Adjusted EBITDA⁽¹⁾ was \$1.5 million, 28.2% higher sequentially than the previous quarter
- Completed the acquisition of Sublime, which included "Fuzzies", California's award-winning infused pre-roll brand, for \$43.8 million
- Appointed Matt Hawkins as Interim CEO and Ahmer Iqbal as COO of Harborside
- Completed the acquisition of Accucanna LLC ("Accucanna"), the Desert Hot Springs retail dispensary license holder, and the real property related to the Desert Hot Springs dispensary
- Announced a strategic research agreement with Utah State University

Subsequent Events

- Announced plans to install an onsite renewable energy microgrid at the Company's cultivation and production facility in Salinas, California (the "Production Campus")
- Announced a retail partnership with the premium brand RNBW
- Announced the resignation of MNP LLP and appointment of Armanino LLP as auditor
- Announced entering into definitive agreements to acquire Urbn Leaf and Loudpack
- Announced the signing of a non-binding term sheet with Pelorus Equity Partners for proposed Roll Up Financing of \$77.3 million
- Announced a private placement of up to \$10 million of SVS priced at C\$0.79 per SVS.

Q3 2021 Financial Results and Highlights⁽⁴⁾

	Q3 2021	Q2 2021	Q3 2020
Retail Revenues	\$9,182,923	\$10,962,053	10,681,897
Wholesale Revenues	\$2,810,791	\$5,236,230	8,890,723
Manufacturing Revenues	\$5,891,187	nil	NI
Total Gross Revenues	\$17,884,901	\$16,198,283	19,572,620
Cultivation Excise Taxes	\$(439,294)	\$(844,156)	\$(1,166,993)
Total Net Revenues	\$17,445,607	\$15,354,127	\$18,405,627
Retail Gross Profit ^(b)	\$5,404,688	\$6,195,833	\$5,353,429
Wholesale Gross Profit ^(a)	\$(720,185)	\$2,514,993	\$3,261,915
Manufacturing Gross Profit	\$2,097,756	nil	NI
Total Gross Profit^(a)	\$6,782,259	\$8,710,826	8,615,344
Retail Gross Margin ^{(b)(d)}	58.9%	56.5%	50.1%
Wholesale Gross Margin ^{(a)(d)}	(30.3)%	57.2%	42.2%
Manufacturing Gross Margin	35.6%	nil	NI
Total Gross Margin^{(a)(b)(d)}	38.9%	56.7%	46.8%
G&A/Professional Fees ^(c)	\$9,928,011	\$8,636,150	\$6,783,987
Net Income (Loss) attributable to Harborside, Inc.	\$2,733,602	\$1,757,955	\$(2,413,987)
Adjusted EBITDA ^(d)	\$1,438,278	\$1,122,270	\$4,297,364

NOTES:

(a) Including cultivation excise taxes and adjustments for biological assets.

(b) Retail results have been affected by additional expenditures due to the COVID-19 pandemic, including additional pay for the Company's front line workers, personal protective equipment for customers and employees and costs incurred for other safety measures.

(c) See "Operating Expenses" below.

(d) 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, 2021.

Q3 2021 Financial Summary

Gross Revenues

During Q3 2021, Harborside generated retail revenue of \$9.2 million, wholesale revenue of \$2.8 million and manufacturing revenue of \$5.9 million, for total gross revenue of \$17.9 million, as compared to \$11.0 million, \$5.2 million and \$nil, respectively, for total gross revenue of \$16.2 million in the quarter ended June 30, 2021 ("Q2 2021"). On a quarter over quarter basis, retail revenues declined by \$1.8 million as consumers reacted to the end of government assistance programs and also began to travel more extensively as COVID-related restrictions subsided throughout the United States. Although the average crop weight per harvest improved during Q3 2021, wholesale revenues declined by \$2.4 million on a quarter over quarter basis as wholesale pricing for bulk products declined in California and the Salinas Production Campus revamped its grow schedules to prepare for the start of a perpetual harvest cycle beginning in Q4 2021. The Production Campus also experienced a supply chain related disruption to its substrate (grow medium) materials, which caused a shortage of flowering plants during the quarter.

In Q3 2021, the Company began reporting manufacturing revenues from the acquisition of Sublime, which totaled \$5.9 million during the quarter.

As compared to retail revenue of \$10.7 million, wholesale revenue of \$8.9 million and total gross revenue of \$19.6 million achieved during the three months ended September 30, 2020 ("Q3 2020"), revenues for the quarter were generally lower than Q3 2020 as the entire California market adjusted to the reduction of COVID-19 restrictions and the corresponding changes to consumer behavior.

Gross Profits

The Company's retail operations generated gross profits of \$5.4 million in Q3 2021, compared to \$6.2 million in Q2 2021. The quarter over quarter retail gross profit decreased by \$0.8 million due to lower sales volume during the quarter, while retail gross margin⁽¹⁾ increased from 56.5% in Q2 2021 to 58.9% in Q3 2021 due to improved supplier pricing and less discounting at the point of sale.

As compared to the \$5.4 million in gross profit achieved during Q3 2020, retail gross profits were comparable on a year over year basis. As a result of the ongoing efforts at cost reduction and less discounting, retail gross margins⁽¹⁾ improved from 50.1% in Q3 2020 to 58.9% in Q3 2021.

After adjustments for biological assets, the Company's wholesale operations generated gross profits of \$(0.7) million in Q3 2021, compared to \$3.3 million in Q3 2020, with the year over year decrease being primarily due to lower wholesale prices combined with less available flower from the Production Campus as the harvest schedule was adjusted in preparation for a perpetual harvest cycle beginning in Q4 2021.

Q3 2021 combined gross profit, after adjustments for biological assets, was approximately \$6.8 million, a \$1.8 million year-over-year decrease as compared to the \$8.6 million reported in Q3 2020. The year over year decrease was primarily due to lower wholesale prices and less available flower from the Production Campus.

Operating Expenses

Total operating expenses for Q3 2021 were \$11.1 million, compared to \$7.8 million in Q3 2020. The year-to-year increase in total operating expenses is primarily due to an increase in general and administrative expenses of \$2.4 million, to \$6.5 million as compared to \$4.1 million in the comparative period in 2020, and an increase in M&A related professional fees of \$1.2 million as compared to \$nil in Q3 2020, primarily due to an increased level of M&A related activities in the current quarter, as well as the acquisitions of Sublime and Accucanna.

During Q3 2021, the Company also recorded income tax expense of \$1.8 million, compared to \$1.8 million in Q3 2020, based on estimated federal income taxes payable at each period end. The Company also realized a one-time gain of approximately \$5.3 million in the quarter due to the

adjustment of the estimate for uncertain tax liabilities related to Internal Revenue Code section 280E.

Operating income (loss) for Q3 2021 was \$(4.3) million, compared to an operating income of \$0.7 million for Q3 2020. The decrease was primarily due to an increase in general and administrative expenses along with an increase in M&A related professional fees, primarily related to an increased level of M&A activities in the current quarter as well as the acquisitions of Sublime and Accucanna.

Net income attributable to Harborside was \$2.7 million in Q3 2021, compared to a net (loss) attributable to Harborside of \$(2.4) million in Q3 2020, a 213% increase on a year-over-year basis. The increase in net income attributable to Harborside is primarily the result of a one-time gain of approximately \$5.3 million in the quarter due to the adjustment of the estimate for uncertain tax liabilities related to Internal Revenue Code section 280E, along with fair value gains in other current assets, derivative liabilities and preferred shares.

Adjusted EBITDA for Q3 2021 was \$1.4 million or 8.2% of net revenues, compared to Adjusted EBITDA of \$4.5 million or 24.3% of net revenues for Q3 2020.⁽¹⁾ The year-over-year decrease was driven largely by the reduced wholesale prices for bulk cannabis in the quarter, combined with less available flower from the Production Campus. See "Non-IFRS Financial Measures, Reconciliation, and Discussion".

Liquidity and Cash Balance⁽⁴⁾

As of September 30, 2021, Harborside had total current assets of approximately \$34.7 million, including approximately \$14.2 million of cash, as compared to current assets of approximately \$21.2 million, including approximately \$13.3 million in available cash as of September 30, 2020.

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, 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, a manufacturing facility in Oakland, California, distribution facilities in San Jose and Los Angeles, California and an integrated cultivation/production facility in Salinas, California. Harborside is a publicly listed company, trading on the Canadian Securities Exchange ("CSE") under the ticker symbol "HBOR" and the OTCQX under the ticker symbol "HBORF", and the Company continues to play an instrumental role in making cannabis safe and accessible to a broad and diverse community of California and Oregon consumers. Additional information regarding Harborside is available under Harborside's SEDAR profile at 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 the period ended September 30, 2021. See "Non-IFRS Measures, Reconciliation and Discussion".
- (2) This is forward-looking information and based on a number of assumptions. See "Cautionary Note Regarding Forward-Looking Information".
- (3) Financial outlook and future-oriented financial information, as with forward-looking information generally, are, without limitation, based on the assumptions and subject to various risks. These targets, and the related assumptions, involve known and unknown risks and uncertainties that may cause actual results to differ materially. The purpose of the information is to provide readers with a more complete perspective on the Company's anticipated future operations and business activities. Readers are cautioned that the information may not be appropriate for other purposes. While Management of Harborside believes there is a reasonable basis for these targets, such targets may not be met. Actual results may vary and differ materially from the targets. Accordingly, investors are cautioned not to place undue reliance on the foregoing information. See "Cautionary Note Regarding Forward-Looking Information" and "Assumptions" below.

- (4) Certain 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. Financial statements have not been prepared in accordance with the same standards. Harborside and Loudpack prepare their financial statements in accordance with International Financial Reporting Standards. Urbn Leaf prepares their financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. Sublime for the period prior to acquisition by Harborside on July 2, 2021 prepared their financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. Readers are cautioned not to place undue reliance on such information.
- (5) Based on public disclosures and BDS Analytics.

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 that these measures provide useful information as they represent 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 the period ended September 30, 2021. 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 the period ended September 30, 2021, which is available under the Company's profile on www.sedar.com.

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 and United States securities legislation. To the extent any forward-looking information in this news release constitutes "financial outlooks" or "future-oriented financial information" within the meaning of applicable Canadian securities laws, the reader is cautioned not to place undue reliance on such information. 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, new store openings, acquisition opportunities, the completion of the proposed business combination with Urban Leaf and Loudpack, if at all, timing to complete the proposed business combination with Urban Leaf and Loudpack, the formation of StateHouse, the Company's proposed financing activities, the Company's corporate strategy moving forward, and the information under the heading "Management Commentary".

Financial outlooks and future-oriented financial information, as with forward-looking information generally, are, without limitation, based on the assumptions and subject to various risks as set out herein. The Company's actual financial position and results of operations may differ materially from management's current expectations and, as a result, the Company's revenue and Adjusted EBITDA for fiscal year 2021 may differ materially from the financial outlooks and future-oriented information provided in this news release.

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 and acquisitions; political and social uncertainties; inability to obtain adequate insurance to cover risks and hazards; employee relations; 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; and the risk factors set out in the Company's management discussion and analysis for the period ended September 30, 2021 and the Company's listing statement dated May 30, 2019, which are available under the Company's profile on www.sedar.com. 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, investors should note that there are significant legal restrictions and regulations that govern the cannabis industry in the United States. Cannabis remains a Schedule I drug under the US Controlled Substances Act, making it illegal under federal law in the United States to, among other things, cultivate, distribute or possess cannabis in the United States. Financial transactions involving proceeds generated by, or intended to promote, cannabis-related business activities in the United States may form the basis for prosecution under applicable United States federal money laundering legislation.


While the approach to enforcement of such laws by the federal government in the United States has trended toward non-enforcement against individuals and businesses that comply with recreational and medicinal cannabis programs in states where such programs are legal, strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. The enforcement of federal laws in the United States is a significant risk to the business

of the Company and any proceedings brought against the Company thereunder may adversely affect the Company's operations and financial performance.

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.

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.

SOURCE Harborside Inc.

 View original content to download multimedia:

<http://www.newswire.ca/en/releases/archive/November2021/29/c2722.html>

%SEDAR: 00013218E

For further information: Company Contact: Harborside Inc., Roman Stahl, VP of Investor Relations, Mergers and Acquisitions, ir@hborgroup.com; Investor Contact: Bay Street Communications, Philip Koven, Managing Partner, pkoven@baystreetcommunications.com; Media Contact: MATTIO Communications, harborside@mattio.com

CO: Harborside Inc.

CNW 22:16e 29-NOV-21