

# Harborside Inc. Finalizing Initial Integration Measures that Are Expected to Generate Approximately \$10.3 Million in Annualized Cost Savings<sup>(1)(2)</sup>

– Targeting 500bp gross margin improvements at both the wholesale and retail levels –

OAKLAND, Calif. and TORONTO, May 31, 2022 /CNW/ - Harborside Inc. ("Harborside" or the "Company") (CSE: HBOR) (OTCQX: HBORF), a California-focused, vertically integrated cannabis enterprise, today provided details of the integration of its operations with those of the three companies acquired by the Company since the third quarter of last year. On July 2, 2021, the Company acquired Sublimation Inc. ("Sublime"), which was followed by the acquisition of UL Holdings Inc. ("Urbn Leaf") on March 1, 2022 and LPF JV Corporation ("Loudpack") on April 4, 2022 (together, the "Acquisitions"). All amounts in this press release are expressed in U.S. dollars.

The integration of the Acquisitions with Harborside is well underway and the Company expects to complete the first phase of the process by the end of June 2022. Management anticipates that these measures will generate approximately \$10.3 million<sup>(1)(2)</sup> of annualized cost savings. Below is a summary of important initiatives that have already been completed or are currently being finalized:

1. In January 2022, the Company moved Urbn Leaf's manufacturing and distribution operations to Loudpack's state-of-the art facility in Greenfield, California. As a result, the Company discontinued operations in Urbn Leaf's manufacturing and distribution facilities in February 2022, thereby generating in excess of \$800,000 of estimated annualized cost savings.
2. In April 2022, Harborside consolidated the management of its cultivation operations at Greenfield with the management of its cultivation operations in its facility in Salinas, California. As a result, the Company was able to eliminate redundancies and generate annualized cost savings of approximately \$600,000. An additional annual reduction of approximately \$260,000 was identified by incorporating Salinas' nutrient formula at the Greenfield facility.
3. Effective this week, the Company expects to complete the closure of the Sublime production facility in Oakland, with the sale of such facility expected to be completed later in June 2022. Cost savings related to headcount reductions are expected to total approximately \$2.4 million<sup>(1)(2)</sup> per year, and the Company contemplates additional annual savings from rent reduction and license elimination. The anticipated sale of the Sublime production facility is expected to result in proceeds of approximately \$200,000<sup>(1)(2)</sup>. In conjunction with the closure and sale, the Company expects to recognize a non-cash impairment charge against its property, plant and equipment, intangible assets and goodwill related to the facility.
4. Harborside has significantly reduced its overall senior management complement, reflecting its one-company status. A number of executive-level managers have left the Company in 2022, resulting in a reduction of approximately \$1.2 million of annual payroll costs.
5. Harborside is currently in the final stages of implementing significant changes to its corporate, manufacturing, wholesale sales and retail store operations. By the end of June 2022, the Company expects to generate a further \$5 million<sup>(1)(2)</sup> in annual cost reductions, attributable primarily to operational efficiencies and process improvement. One-time costs associated with these changes are expected to total approximately \$500,000<sup>(1)(2)</sup>.

The Company is already benefiting from the utilization of best-in-class processes and procedures from across the four companies. For example, cultivation yields in April 2022 were 2.5 times higher than those experienced in April 2021, based on improvements in all areas of cultivation. May 2022 yields are tracking at similar levels, and the Company expects this trend to be sustainable. Retail store operations are also benefiting from cross-company knowledge and enhanced market information. Harborside expects its retail gross margins to increase to more than 60% by year-end 2022<sup>(1)(2)</sup>.

"We are making outstanding progress to date in putting these four companies together," said Ed Schmults, Chief Executive Officer of Harborside. "The annualized cost savings of \$10.3 million achieved to date will substantially strengthen our financial performance, and we are pleased to be realizing the synergies so quickly. As we prepare to change the name of the Company to StateHouse Holdings Inc. in the coming weeks, we expect to begin the second phase of integration, which will be focused on continued cost reductions and gross margin enhancement."

By year-end 2022, the Company anticipates gross margins to expand to a level approximately 500 basis points higher than historical Harborside margins, in both the retail and wholesale businesses. This assumption is based on the cost savings and operational enhancements enacted to date and further such reductions over the balance of the year.

As previously announced, the Company's estimated pro forma 2021 sales, which include the full-year sales for Harborside, Sublime, Urbn Leaf and Loudpack, would have totaled approximately \$190 million<sup>(3)</sup>. This figure excludes bulk sales, which Loudpack has discontinued since completion of the Acquisitions. With scale in revenue having already been achieved and integration expected to yield strong margin improvements, management believes that the Company is positioned to deliver strong, sustainable returns to shareholders<sup>(1)(2)</sup>.

## Conference call

The Company will host a conference call today for analysts and investors, during which it will review the ongoing progress of Harborside's business integration:

Conference Call Date: May 31, 2022

Time: 11:00am ET

North American toll-free dial-in number: 1-888-664-6392

International dial-in number: 416-764-8659

Webcast: [https://produceredition.webcasts.com/starthere.jsp?ei=1552975&tp\\_key=14131803f3](https://produceredition.webcasts.com/starthere.jsp?ei=1552975&tp_key=14131803f3)

A telephonic replay of the conference call will also be available through June 14, 2022.

North American toll-free replay number: 1-888-390-0541

International replay number: 416-764-8677

Replay entry code: 193421#

## About Harborside

Harborside, a vertically integrated enterprise with cannabis licenses covering retail, major brands, distribution, cultivation, nursery and manufacturing, is one of the oldest and most respected cannabis companies in California. Founded in 2006, Harborside was awarded one of the first six medical cannabis licenses granted in the United States. Today, the Company operates 14 dispensaries covering Northern and Southern California and one in Oregon, distribution facilities in San Jose and Los Angeles, California and integrated cultivation/production facilities in Salinas and Greenfield, California. Harborside is a publicly listed company, currently trading on the Canadian Securities Exchange ("CSE") under the ticker symbol "HBOR" and the OTCQX under the ticker symbol "HBORF". 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.

## Notes:

1. This is forward-looking information and based on a number of assumptions. See "Cautionary Note Regarding Forward-Looking Information".
2. 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.
3. 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.

## 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 relating to the integration of Harborside with Sublime, Urban Leaf and Loudpack, annualized future cost savings, timing of the closure of and sale of the Sublime production facility, cost savings for headcount reductions, expected proceeds from the sale of the Sublime production facility, future yields of the Company, increases to retail gross margins, the future name change of the Company, returns to shareholders, and the Company's future gross margins and financial performance.

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's discussion and analysis for the period ended December 31, 2021 and the Company's listing statement dated May 30, 2019, which are available under the Company's profile on [www.sedar.com](http://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 United States 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.*

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