

## FORM 7

### MONTHLY PROGRESS REPORT

Name of Listed Issuer: Harborside Inc. ("Harborside" or the "Issuer")

Trading Symbol: HBOR

Number of Outstanding Listed Securities: 21,221,847 Subordinate Voting Shares

Date: August 31, 2020

#### **Report on Business**

1. Provide a general overview and discussion of the development of the Issuer's business and operations over the previous month. Where the Issuer was inactive disclose this fact.

**On August 10, 2020, Harborside filed its audited annual financial statements and corresponding management's discussion and analysis ("MD&A") 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 Issuer also announced that it intends to file the interim financial statements and corresponding MD&A for the period ended March 31, 2020 (collectively, the "Q1 Filings") before the end of August 2020. Harborside expects that upon completion of the Q1 Filings, it will apply to have the previously-disclosed cease trade order ("CTO") imposed by the Ontario Securities Commission (the "OSC") revoked. Trading is expected to resume on the Canadian Securities Exchange (the "CSE") shortly after the revocation of the CTO.**

**In the same press release dated August 10, 2020, Harborside reaffirmed its expectations for its first quarter ended March 31, 2020, as previously announced on April 23, 2020. Harborside also provided an update regarding preliminary unaudited results for its second quarter ended June 30, 2020 ("Q2 2020"). Revenue for Q2 2020 is expected to increase approximately 28% year-over-year to approximately USD \$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.**

**On August 12, 2020, Harborside filed restated interim financial statements and related MD&As for the interim periods ended March 31, 2019, June 30, 2019, and September 30, 2019 (the "Restated Documents"). The Restated Documents were primarily due to the acquisitions of Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness ("SJW") on January 7, 2019, which was deemed for accounting purposes to be a business combination that must be accounted for as an acquisition**

under IFRS 3 – Business Combinations. Further, restatements included in the Restated Financial Statements contributed to the adjustments required.

On August 26, 2020, Harborside filed its Q1 Filings. In conjunction with the Q1 Filings, Harborside applied to have the CTO revoked. Trading is expected to resume on the CSE shortly after the revocation of the CTO.

In the same press release dated August 26, 2020, Harborside also reaffirmed its expectations for its Q2 2020 revenue increase of approximately 28% year-over-year to approximately \$16 million, before adjustments for cultivation excise taxes, as previously announced on August 10, 2020. 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, its branded products represented between seven and nine of the 20 top-selling SKUs in Q2 2020. Wholesale growth in Q2 2020 was primarily driven by improved harvest yields and higher sales volumes at Harborside's farm operation in Salinas, California, resulting primarily from increased production of high-quality flower and higher average sales prices. Adjusted EBITDA is expected to be positive, driven largely by improved operating efficiencies and headcount reductions across the entity. For retail operations, gross margin improved from 2019 to year to date 2020.

Harborside also announced the appointment of Peter Kampian to the Board of Directors (the "Board"). Mr. Kampian brings his vast experience as a financial executive working with a number of Canadian public companies and various private companies. In addition, Harborside also announced that Lisah Poore will step down from her role as Chief Retail Officer ("CRO") effective August 28, 2020.

On August 31, 2020, Harborside announced that the OSC had issued an order revoking the CTO against the Company. As previously disclosed, the OSC issued the CTO relating to: (a) the Issuer's refiling of the Restated Documents due primarily to changes in the application of accounting treatments related to certain transactions by its reverse takeover acquirer, FLRish, Inc.; and (b) the Company's failure to meet the filing deadline of the Annual Filings. In conjunction with the filing of the Restated Documents, the 2019 Annual Filings, and the Q1 Filings, the OSC fully revoked the CTO.

2. Provide a general overview and discussion of the activities of management.

**The Issuer's management continues to work on the discontinuation of operations of its retail dispensary in Portland, Oregon, as previously announced on April 23, 2020. Additionally, management continues to work on the final disposition of the acquisition previously announced by the Issuer of a 100% interest in Altai Partners, LLC ("Altai"), a Delaware limited liability company with its principal place of business located in California. Altai has a binding agreement to acquire a minimum 45% ownership interest in Lucrum Enterprises Inc., d/b/a LUX Cannabis Dispensary ("LUX"), which is one of only 16 licensed dispensaries operating in San Jose, California.**

3. Describe and provide details of any new products or services developed or offered. For resource companies, provide details of new drilling, exploration or production programs and acquisitions of any new properties and attach any mineral or oil and gas or other reports required under Ontario securities law.

**There were no new products or services developed or offered during the month.**

4. Describe and provide details of any products or services that were discontinued. For resource companies, provide details of any drilling, exploration or production programs that have been amended or abandoned.

**There were no products or services which were discontinued during the month.**

5. Describe any new business relationships entered into between the Issuer, the Issuer's affiliates or third parties including contracts to supply products or services, joint venture agreements and licensing agreements etc. State whether the relationship is with a Related Person of the Issuer and provide details of the relationship.

**Aside from business relationships entered into in the normal course of business from time to time during the last month, the Issuer has no further new business relationships to report.**

6. Describe the expiry or termination of any contracts or agreements between the Issuer, the Issuer's affiliates or third parties or cancellation of any financing arrangements that have been previously announced.

**There were no material contracts or agreements expired or terminated during the month and no other material financing arrangements were cancelled during the month.**

7. Describe any acquisitions by the Issuer or dispositions of the Issuer's assets that occurred during the preceding month. Provide details of the nature of the assets acquired or disposed of and provide details of the consideration paid or payable together with a schedule of payments if applicable, and of any valuation. State how the consideration was determined and whether the acquisition was from or the disposition was to a Related Person of the Issuer and provide details of the relationship.

**None noted.**

8. Describe the acquisition of new customers or loss of customers.

**Aside from the acquisition or loss of retail consumer customers in the normal course of business, the Issuer has no further customer acquisitions or losses to report.**

9. Describe any new developments or effects on intangible products such as brand names, circulation lists, copyrights, franchises, licenses, patents, software, subscription lists and trademarks.

**None noted.**

10. Report on any employee hirings, terminations or lay-offs with details of anticipated length of lay-offs.

**Aside from the hiring or termination of employees in the normal course of business, the Issuer had no further hirings or terminations to report.**

11. Report on any labour disputes and resolutions of those disputes if applicable.

**None noted.**

12. Describe and provide details of legal proceedings to which the Issuer became a party, including the name of the court or agency, the date instituted, the principal parties to the proceedings, the nature of the claim, the amount claimed, if any, if the proceedings are being contested, and the present status of the proceedings.

**As previously disclosed, certain of the Issuer's US subsidiaries are involved in five US Tax Court cases involving application of Internal Revenue Code Section 280E to the Issuer's business. Three of these cases involve the Issuer's subsidiary PMACC, while two of these cases involve Issuer subsidiary SJW.**

**On October 21, 2019, the US Tax Court issued a final decision under Tax Court Rule 155 on the income tax deficiency for PMACC, which ruled that PMACC owes an aggregate tax deficiency of approximately \$11 million for the fiscal years 2007 through 2012.**

On May 26, 2020, the Issuer filed an appeal of the US Tax Court's October 21, 2019 with the US Federal Court of Appeals for the Ninth Circuit. No opinion is expected from the appeal until late 2020, when the case will be argued before the Ninth Circuit.

On January 6, 2020, the Issuer's subsidiary FLRish, Inc. was served with a complaint filed by plaintiff and putative class representative Ms. Gia Calhoun. The complaint, filed on December 17, 2019 in the US Federal District Court for the Northern District of California, alleges violations of the Telephone Consumer Protection Act (47 USC §227 et seq.) ("TCPA"), and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Ms. Calhoun. The Issuer 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 Issuer further believes that Ms. Calhoun's allegations fail to adequately represent the claims of any alleged class of similarly situated plaintiffs. On April 6, 2020, the Issuer filed a motion to stay all proceedings in the matter pending a ruling by the US Supreme Court in the case *Barr v. Am. Ass'n of Political Consultants, Inc.*, No. 19-631, scheduled for hearing April 22, 2020, concerning the constitutionality of the Telephone Consumer Protection Act, 47 U.S.C. Section 227(b). On May 13, 2020, the Court granted Issuer's motion to stay all proceedings in the matter pending the US 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 the case pending the Supreme Court's granting review on the issue of what constitutes an "automatic telephone dialing system" under the TCPA in another case pending before the US Supreme Court, *Facebook v. Duguid*. On July 6, 2020, the US 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, per the Court's order the parties filed a joint status report on July 13, 2020, and on July 17, 2020 the parties appeared before the Court for a case management conference. At the case management conference, the Court ruled that (i) no class related discovery is permitted, (ii) within the next 90 days, the Company may take discovery on plaintiff's TCPA claim, (iii) within the next 90 days, plaintiff may take discovery from the Company or its outside service provider as to the issue of whether an "automatic telephone dialing system" ("ATDS") was used to call plaintiff. The Court also expressly ruled that the parties may not engage in any expert discovery on the ATDS issue and set another case management conference for October 16, 2020. In the interim, the Company anticipates that the US Supreme Court will grant review on the issue of what constitutes an ATDS in *Duguid*, and the Company plans to subsequently propose that the Court extend the stay until the US Supreme Court issues a decision in *Duguid*.

On or about January 10, 2020, the Issuer's subsidiary Patients' Mutual Assistance Collective Corporation ("PMACC") was served with a complaint filed by plaintiff and putative class representative Mr. Michael Adams. The

complaint, filed on January 7, 2020 in Superior Court of the State of California for Alameda County, alleges violations of California Business and Professions Code §17200 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 Mr. Adams. The Issuer 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. Issuer further believes that Mr. Adams' allegations fail to adequately represent the claims of any alleged class of similarly situated plaintiffs. In late April 2020, the Issuer filed a demurrer/motion to strike as to plaintiff's complaint; the Court granted the Issuer's demurrer/motion to strike in part, with leave for the plaintiffs to amend and refile their original complaint. The Plaintiff subsequently refiled an amended complaint per order of the Court, to which the Issuer filed an answer on May 20, 2020. The Plaintiff subsequently filed a demurrer to Issuer's answer, which was granted in part and denied in part by the Court on August 27, 2020. The case otherwise remains in motion practice at present.

13. Provide details of any indebtedness incurred or repaid by the Issuer together with the terms of such indebtedness.

**None noted.**

14. Provide details of any securities issued and options or warrants granted.

**None noted.**

15. Provide details of any loans to or by Related Persons.

**None noted.**

16. Provide details of any changes in directors, officers or committee members.

**On August 26, 2020, Peter Kampian was appointed to the Board.**

**On August 28, 2020, Lisa Poore stepped down from her role as CRO.**

**Other than the above, the Issuer had no further hirings or terminations of directors, officers or committee members to report.**

17. Discuss any trends which are likely to impact the Issuer including trends in the Issuer's market(s) or political/regulatory trends.

**The trends and risks which are likely to impact the Issuer are detailed in the Issuer's Listing Statement dated May 30, 2019, under the heading "Risk Factors"; in the Issuer's most recently filed management's discussion and analysis; and in the Issuer's other public filings, all of which are available under the Issuer's SEDAR profile at [www.sedar.com](http://www.sedar.com), and which are incorporated into this report by reference thereto.**

**In addition, on January 30, 2020, the World Health Organization declared that the recent COVID-19 outbreak was a global health emergency, recognizing that the disease represents a risk outside of China, where it emerged in the last several months. Companies across various industries could be impacted materially by the coronavirus.**

**COVID-19's known and unknown impact on earnings, costs, employees, supply chains, customers and other stakeholders, as well as other business matters, may be material for the Issuer, and may have a material impact on the Issuer's gross earnings, net earnings and other business matters. Environmental, social and governance factors may also impact the Issuer's operations in the near future.**

## Certificate of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.
2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 7 Monthly Progress Report is true.

Dated: September 3, 2020.

Peter Bilodeau

Name of Director or Senior Officer

"Peter Bilodeau"

Signature

Interim Chief Executive Officer

Official Capacity

<b>Issuer Details</b> Name of Issuer Harborside Inc.	For Month End August 31, 2020	Date of Report 20/09/03
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