

# FORM 7

## MONTHLY PROGRESS REPORT

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

Trading Symbol: HBOR

Number of Outstanding Listed Securities: 36,742,332 Subordinate Voting Shares

Date: June 30, 2021

### 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 June 1, 2021, the Issuer announced it has signed a definitive agreement (the "Agreement") to acquire 100% of the issued and outstanding equity of Sublimation Inc. ("Sublime"), a cannabis manufacturing company located in Oakland, California, for a total consideration of US\$43.8 million (the "Acquisition"). The Acquisition is expected to close, subject to customary closing conditions, in July 2021 (see Question #7 for more details).**

**On June 2, 2021, the Issuer announced it has completed the purchase of its 47-acre production campus, which includes 200,000 square feet ("sq. ft.") of licensed cultivation space, including 155,000 sq. ft. of flower canopy space and 45,000 sq. ft. of nursery space in Salinas, California (the "Production Campus") on June 1, 2021. The Issuer completed the purchase of the Production Campus using approximately US\$10.84 million in funds drawn from its existing credit facility.**

**On June 10, 2021, the Issuer announced that it has executed a settlement and release agreement (the "Settlement Agreement") in respect of the previously disclosed litigation between the Issuer and a former employee. Pursuant to the settlement agreement, the Issuer has agreed to a one-time payment, net of insurance coverage, of approximately US\$1.5 million to settle all aspects of the litigation, which was initiated by the plaintiff in June 2018. More than half of the settlement amount was previously reserved by the Issuer in Q4 2019 and the settlement payment was incurred to eliminate substantial future legal costs and will resolve all issues relating to the matter.**

**On June 14, 2021, the Issuer announced that it has granted options (each, an "Option") to purchase an aggregate of 684,985 subordinate voting shares of the Issuer ("SVS") to certain employees of Harborside. Each Option is exercisable into one SVS in the capital of Harborside at an exercise price of**

**\$2.21 per SVS. The Options will expire five years from the date of grant and are subject to vesting conditions.**

**On June 30, 2021, the Issuer announced that it has completed the previously announced upgrade of one of its approximately 45,000 square foot greenhouses at its Production Campus. The upgrades included, among other things, the installation of blackout curtains, supplemental LED grow lights, and the incorporation of a state-of-the-art environmental control system. The enhancements completed at the Production Campus have permitted the Issuer to implement high-yield indoor cultivation techniques and technology into the existing greenhouse environment. As a result, the annual cultivation capacity of the greenhouse is expected to increase over 50% and by leveraging automated light deprivation technology, the greenhouse is now capable of year-round, high-quality production.**

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

**On September 1, 2020, the Issuer announced that it had commenced a strategic review of the business and opportunities in the marketplace (the “Strategic Review”) to maximize shareholder value including, potential merger and acquisition opportunities, equity financings, and the potential repurchase and financing of the Issuer’s farm operation in Salinas, California (the “Farm”). The Issuer has not established a definitive timeline to complete the Strategic Review, and no decisions related to any strategic alternative has been reached at this time. There can be no assurance as to what, if any, alternative might be pursued by the Issuer as a result of the Strategic Review. The Issuer does not intend to comment further with respect to the Strategic Review unless and until it determines that additional disclosure is appropriate in the circumstances and in accordance with the requirements of applicable securities laws.**

**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. A permanent closure was requested on July 28, 2020 and the final surrender inspection was acknowledged by the Bureau of Cannabis Control on September 22, 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

4. 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 products or services which were 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. The Acquisition mentioned under item 1 above was not closed in June 2021.**

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.

**None noted.**

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, the Issuer subsidiary San Jose Wellness Solutions Corp. ("SJW") is involved in two US Tax Court cases involving application of Internal Revenue Code Section 280E to the Issuer's business.**

**The first case involves the 2010, 2011, and 2012 tax years, and in this case, the IRS asserted a tax deficiency of \$2.1 million. The second case involves the 2014 and 2015 tax years and in the second case the IRS asserted that SJW owed an additional \$2.1 million in taxes and penalties. Both of these proceedings involve substantially the same IRC Section 280E issues as the PMACC cases (as previously reported). On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to the SJW cases for SJW. SJW accrued an additional \$0.5 million related to the 2015 tax year as at December 31, 2020 based on the deficiencies assessed by the court. SJW appealed the Tax Court decisions on May 14, 2021.**

**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 U.S. Federal District Court for the Northern District of California (the "Court"), 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 U.S. Supreme Court in the case Barr v. Am. Ass'n of Political Consultants, Inc., No. 19-631, concerning the constitutionality of**

Section 227(b) of the TCPA. On May 13, 2020, the Court granted the Issuer's motion to stay all proceedings in the matter pending the U.S. 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 pending the Supreme Court's granting review on the issue of what constitutes an "automatic telephone dialing system" ("ATDS") in the Duguid v. Facebook petition. On July 6, 2020, the U.S. 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 Issuer's litigation, per the Court's order the parties filed a joint status report on July 13, 2020. On July 17, 2020, the parties appeared before the Court for a case management conference. In the interim, the Supreme Court granted review on the issue of what constitutes an ATDS in the Duguid v. Facebook petition, and the Issuer subsequently proposed that the Court extend the stay until the Supreme Court issues a decision on Facebook's petition. At the case management conference on July 17 the Court ruled:

1. No class-related discovery is permitted
2. Within the next 90 days, the Issuer may take discovery on plaintiff's DNC claim
3. Within the next 90 days, plaintiff may take discovery on the issue of whether an ATDS was used to call Plaintiff. However, the court expressly ruled that the parties may not engage in any expert discovery on the ATDS issue.

On April 1, 2021, the Supreme Court issued its decision in the Facebook case, narrowly interpreting "automatic telephone dialing system." The court held, "Congress' definition of an autodialer requires that in all cases, whether storing or producing numbers to be called, the equipment in question must use a random or sequential number generator." Though not dispositive, FLRish, Inc. believes the ruling is favorable to its defense. FLRish, Inc. presently awaits the court's setting of another Case Management Conference. A trial date remains to be set, and the case remains in discovery phase.

On or about January 10, 2020, 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. The 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. On or about October 6, 2020, the plaintiff and the Issuer agreed to mediation of the case, with mediation scheduled for March 29, 2021. Upon mutual stipulation, the parties agreed to continue the scheduled mediation to May 4, 2021. At the May 4, 2021 mediation, the parties did not reach a settlement agreement, however, the parties agreed to continue discovery. As of June 30, 2021, a follow-up mediation date has been set for July 1, 2021.

In June 2018, a former employee asserted claims against PMACC alleging six causes of action including discrimination based on sex, race, and/or age; failure to prevent discrimination; retaliation for reporting harassment; hostile work environment harassment; defamation; and wrongful termination in violation of public policy. On June 10, 2021, the parties reached a settlement and release agreement (the "Settlement Agreement") in which, the Issuer agreed to a one-time payment, net of insurance coverage, of approximately US\$1.5 million to settle all aspects of the litigation. More than half of the settlement amount was previously reserved by the Issuer in Q4 2019 and the settlement payment was incurred to eliminate substantial future legal costs and will resolve all issues relating to the matter.

In early February 2021, and after informal settlement discussions with plaintiff, the Issuer was formally served with a lawsuit filed in the Superior Court of California for the County of Mendocino. The lawsuit (Hiatt Creek Properties et al. v. AUPA, LLC et al. (SCUK-CVG-20-74135) generally alleges that plaintiff did not receive payment for a number of products and services provided by plaintiff to the defendants. The Issuer believes that the complaint fails to state any claim upon which relief can be granted, that it has meritorious defenses to the alleged causes of action, and that in any event, the amount alleged to be at issue is non-material to the Issuer's financial results. The case is presently in its early stages of pre-trial motion practice.

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.

Security	Number Issued	Details of Issuance	Use of Proceeds <sup>(1)</sup>
Subordinate Voting Shares	693,215	Exercise of options	US\$164,817.00
Subordinate Voting Shares	1,405,647	Conversion of MVS into SVS	N/A

(1) State aggregate proceeds and intended allocation of proceeds.

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.

**None Noted.**

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: July 8, 2021

Matthew Hawkins  
Name of Director or Senior Officer

"Matthew Hawkins"  
Signature

Director  
Official Capacity

<b>Issuer Details</b> Name of Issuer Harborside Inc.	For Month End June 30, 2021	Date of Report 21/07/08
Issuer Address 2100 Embarcadero, Suite 202		
City/Province/Postal Code Oakland/California/94606	Issuer Fax No. ( )	Issuer Telephone No. (416) 840-3798
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