

# FORM 7

## MONTHLY PROGRESS REPORT

Name of Listed Issuer: Harvest Health & Recreation Inc. (the "Issuer").

Trading Symbol: HARV

Number of Outstanding Listed Securities: 108,036,727 subordinate voting shares

Date: February 6, 2020

This Monthly Progress Report must be posted before the opening of trading on the fifth trading day of each month. This report is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by Exchange Policies. If material information became known and was reported during the preceding month to which this report relates, this report should refer to the material information, the news release date and the posting date on the Exchange website.

This report is intended to keep investors and the market informed of the Issuer's ongoing business and management activities that occurred during the preceding month. Do not discuss goals or future plans unless they have crystallized to the point that they are "material information" as defined in the Policies. The discussion in this report must be factual, balanced and non-promotional.

### **General Instructions**

- (a) Prepare this Monthly Progress Report using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the items must be in narrative form. State when the answer to any item is negative or not applicable to the Issuer. The title to each item must precede the answer.
- (b) The term "Issuer" includes the Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

### **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.

During the month the Issuer continued to execute on its business plan. During the month the Issuer continued to execute on its business plan. On January 20, 2020 the Issuer announced a strategic relationship with Harvest of Battle Creek, a new cannabis provisioning center in Michigan. The new partnership continues Issuer's

successful expansion into new markets and demonstrates the company's commitment to increasing patients' and customers' access to best-in-class medical marijuana experiences.

2. Provide a general overview and discussion of the activities of management.
  - Scaling Issuer's operating team.
  - Expanding Issuer's retail and wholesale footprint across the US.
  - Building, acquiring and expanding brands and distributing them across its footprint.
  - Continued efforts to seek regulatory approval for planned acquisitions.
  - Rationalization of resources following completion of acquisition(s).
  - Continuing to operate in a disciplined way, evaluating all opportunities on ROIC.
  
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.

None.
  
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.

None.
  
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.

The Issuer announced a strategic relationship with Harvest of Battle Creek, a new cannabis provisioning center in Michigan.

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.

On January 6, 2020, the Issuer terminated the Agreement and Plan of Merger and Reorganization entered into among the Issuer, Harvest California Acquisition Corp., Falcon International Corp. and its shareholders dated February 14, 2019, as amended (the "Merger Agreement"). The Merger Agreement was terminated as a result of a default by Falcon and its shareholders and other improper conduct of Falcon and its principal officers and directors James Kunevicius and Edlin Kim. On January 6, 2020, the Issuer filed suit in the U.S. District Court for the District of Arizona (Case No. 2:20-cv-00035-DLR) (the "Falcon Lawsuit") which identifies the grounds for termination and seeks a court order compelling Falcon and its shareholders to arbitrate the Issuer's claims. The claims the Issuer seeks to arbitrate include rescission and/or termination of the Merger Agreement, all agreements entered into in connection with the Merger Agreement and the Control Person Transaction discussed below, an award of damages from Falcon and its shareholders including repayment of funds advanced pursuant to promissory notes issued by Falcon and its subsidiaries in connection with the Merger Agreement, confirmation that Falcon and its shareholders are bound to arbitrate the disputes related to the Merger Agreement, exercise of the Purchaser Put Option, appointment of a receiver for Falcon and an award of attorney's fees.

The Falcon Lawsuit also seeks to terminate the Membership Interest Purchase Agreement entered into among James Kunevicius and Edlin Kim (collectively, the "Selling Owners"), Elemental Concepts, LLC and Compass Point, LLC (the "Sellers") and Harvest of California, LLC (a wholly owned subsidiary of the Issuer") dated June 7, 2019 (the "MIPA"). Pursuant to the terms of the MIPA, the Issuer purchased 100% of the membership interests in two entities that hold commercial cannabis licenses in California (the "Purchased Interests") for a purchase price of \$4,100,000 (the "Purchase Price"). The Falcon Lawsuit requires, among other things, the Selling Owners and the Sellers to repurchase from the Issuer all of the Purchased Interests for an amount equal to the Purchase Price as provided for in the MIPA (the "Purchaser Put Option").

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.

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

None.

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

None.

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

45 New Hires- 38 non-exempt hourly; 7 exempt, salary  
41 Terminations

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

None.

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.

Please refer to Section 6 above pertaining to the Falcon Lawsuit.

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

On January 24, 2020, the Issuer closed the third tranche of an offering on a private placement basis of senior secured notes and units. The third tranche closing resulted in the private placement of, (a) approximately US\$140,000 15% senior secured notes due 2022, and (b) approximately 11,197 units, with each unit being comprised of (i) US\$1,000 aggregate principal amount of 9.25% senior secured notes due 2022 and (ii) 109 subordinate voting share purchase warrants.

On January 31, 2020, certain subsidiaries of the Issuer entered into a real estate financing transaction, which was guaranteed by the Issuer. The financing was in the principal amount of \$20,000,000, bears interest at the rate of 16% per annum, and matures on July 31, 2021.

Issuer also made a nominal amount of schedule debt repayments of \$89,237.00.

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

| Security                        | Number Issued/Granted | Details of Issuance   | Use of Proceeds <sup>(1)</sup>       |
|---------------------------------|-----------------------|---|--------------------------------------|
| Senior Secured Promissory Notes | 11,337                | Aggregate principal amount of US \$140,000 @ 15% interest rate; and Aggregate principal amount of US \$11,197,000 @ 9.25% interest rate.                                    | Funding of Issuer's M & A activities |
| Warrants                        | 1,220,473             | Granted in relation to the above mentioned Senior Secure Notes and entitle holder to purchase one share of Issuer's subordinate voting stock at CND\$3.66 per share.        | N/A                                  |
| Warrants                        | 500,000               | Granted In connection with an advisory agreement executed with Issuer and entitle holder to purchase one share of Issuer's subordinate voting stock at CND\$3.66 per share. | N/A                                  |
| Employee Stock Option Grant     | 2,058,000 options     | Grant date 01/09/2020 vesting in equal shares annually over 4-year term. Expiration 01/09/2030  | N/A                                  |

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

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

None.

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

On January 6, 2020, the Issuer announced the hiring Ron Goodson as its Chief Operating Officer. Mr. Goodson is an executive with more than three decades in the food, beverage and consumer goods industry.

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

**Changes/Updates to Federal Laws**

The Centers for Disease Control and Prevention (CDC) has analyzed National and state data from patient reports finding that THC e-cigarette or vaping products leading to lung-related illnesses particularly came from informal sources such as friends, family, or in-person or online dealers, not from regulated dispensaries. Vitamin E-Acetate is still considered to be the primary culprit of those diagnosed with EVALI, however the CDC is still testing to rule out the contribution of other chemicals.

**Changes/Updates to State Laws**

*California*

California Governor Newsom has proposed a simplification of the state cannabis regulatory system, as well as a taxation reduction for legal operators in the state. The proposed changes, part of Governor Newsom's 2020 state budget proposal, include moving the Bureau of Cannabis Control, the Department of Food and Agriculture, and the Department of Public Health – into a single Department of Cannabis Control by July 2021. Further, the Governor's administration's proposed tax changes are designed to reduce the tax-collection burden on the cannabis industry and simplify the tax-collection process.

*Massachusetts*

The Legislature's Joint Committee voted to advance legislation that would more heavily regulate host community agreements and arrangements between cannabis businesses and municipalities. This legislation would authorize the

Cannabis Control Commission to review and regulate host community agreements and would allow a municipality to waive the requirement. Additionally, the bill would clarify that the five-year duration of the agreement begins on the day the cannabis business starts its operations and would specify that no financial obligations are permitted in the agreements except the maximum 3% of gross sales.

### *Michigan*

Detroit City Council voted to extend a moratorium on adult-use cannabis sales which was originally set to expire January 31st. This is meant to give the city time to draft an ordinance to regulate the industry. Detroit is one of more than 1,400 cities and communities that have opted out of allowing adult-use cannabis sales within their borders.

### *Mississippi*

Mississippi will have the opportunity to legalize medical cannabis as Mississippians for Compassionate Care submitted approximately 106,00 signatures in September in support of the initiative. Only 86,000 signatures were required. This will appear on the 2020 November Ballot as Initiative 65.

### *New York*

Governor Andrew Cuomo included a plan to legalize and tax adult-use cannabis in a state budget proposal. The proposal would create an Office of Cannabis Management to oversee the state's medical and adult-use cannabis programs. Adults 21 and older would be able to legally purchase cannabis products at licensed dispensaries. Additionally, a Global Cannabis and Hemp Center for Science, Research and Education would be created within the State University of New York. Social equity would also be a component aiming to correct past harms to individuals and communities that were disproportionately impacted by the War on Drugs.

### *New Hampshire*

The House Criminal Justice and Public Safety Committee approved a bill that would legalize possession and limited cultivation of cannabis for adults 21 and older. House Bill 1648 would allow adults 21 and over to possess up to three-quarters of an ounce of cannabis, five grams of hashish, and up to 300mg of cannabis-infused products. Additionally, the bill would also permit cultivation of up to six plants at home in a secure location that is not visible from outside. The full House votes are expected to take place on February 6. A similar bill, House Bill 481, would have allowed for a regulated and taxed market; however, it died in the Senate.

### *Virginia*

The Virginia Senate Judiciary Committee voted 11-2 to approve a cannabis decriminalization proposal. Senate Bill 2 would decriminalize the possession of cannabis flower and oil by imposing a civil penalty with a max fine of \$50. This legislation would raise the threshold for cannabis distribution offenses from one-half ounce to one ounce. Additionally, it would allow those with previous convictions to petition for expungement. This bill will now go in front of the Senate Finance Committee.

### *Washington*

Washington State Officials are seeking to revamp enforcement policies. The state Liquor and Cannabis Board is recommending the creation of separate policy and legal departments to make decision-making more efficient when interpreting laws; creating a departmental education and outreach unit to coordinate with cannabis companies; and to change cannabis law enforcement attire to display a less 'intimidating' law enforcement presence to cannabis business owners.

## 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 were 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: February 6, 2020

Nicole Stanton  
Name of Director or Senior  
Officer

*Nicole Stanton*  
Signature

Secretary  
Official Capacity

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|---|------------------------------------|---|
| <b><i>Issuer Details</i></b><br>Name of Issuer<br>Harvest Health & Recreation, Inc. | For Month End<br>January           | Date of Report<br>02/06/2020            |
| Issuer Address<br>1155 W. Rio Salado Parkway, Suite 201                             |                                    |   |
| City/Province/Postal Code<br>Tempe, Arizona 85281                                   | Issuer Fax No.<br>( )              | Issuer Telephone No.<br>(480) 494-2261  |
| Contact Name<br>Nicole Stanton  | Contact Position<br>Secretary      | Contact Telephone No.<br>(480) 493-2571 |
| Contact Email Address<br>Nstanton@harvestinc.com                                    | Web Site Address<br>Harvestinc.com |   |