

Harvest Health & Recreation, Inc. Reports Fourth Quarter and Fiscal Year 2018 Financial Results

- *Total revenue for the three and 12 months ended December 31, 2018 increased 135% and 106%, respectively, from prior year.*
- *Total revenue for Q4 2018 increased 52% compared to Q3 2018.*
- *The Company continues to operate profitably; Adjusted EBITDA for the 12 months ended December 31, 2018 was \$10.3 million (all dollars are in U.S. dollars, except where noted).*
- *In 2018, successfully raised almost \$300 million of funds, primarily consisting of: \$50 million in convertible equity notes, \$20 million in senior debt and \$218 million in a brokered private placement.*

April 23, 2019, PHOENIX— [Harvest Health & Recreation, Inc. \(CSE: HARV, OTCQX: HRVSE\)](#), a vertically-integrated and highly diversified cannabis company with strong financial and growth profiles, today reported the company's fourth quarter fiscal year 2018 financial results. Harvest has continued to be successful in winning licenses in non-competitive and competitive application processes throughout the country and has made a number of significant strategic acquisitions and mergers. Harvest's ability to combine size, scale, capital, regulatory expertise and operational excellence are paramount to its success.

Management Commentary

"2018 continued to set records for Harvest's growth and momentum across the United States," said Chief Executive Officer Steve White. "Three key initiatives dictated our decisions throughout the year and will continue to be our focus in 2019: aggressively expanding our retail and wholesale footprint across the U.S., building, acquiring and expanding our suite of brands across our footprint and continuing to operate in a financially disciplined way, while also fueling the revenue growth of the company."

Financial Highlights for the Fourth Quarter Ended December 31, 2018

- Total revenue was \$16.9 million, an increase of 135%, compared to \$7.2 million in Q4 2017.
- Total revenue increased 52% compared to \$11.2 million in Q3 2018.
- Gross profit, excluding impact of biological assets, was \$7.2 million, an increase of 342%, up from \$1.6 million in Q4 2017.
- Gross profit margin, excluding the impact of biological assets, was 42% and 23%, respectively, for Q4 2018 and Q4 2017.
- Adjusted EBITDA was \$2.6 million, compared to \$2.2 million in Q4 2017.
- Net loss was \$71.1 million, for the three months ended December 31, 2018, and includes a non-recurring, non-cash fair value charge of \$50.7 million associated with convertible debt that was converted to equity during the year.

Financial Highlights for the 12 Months Ended December 31, 2018

- Total revenue for the 12 months ended December 31, 2018 was \$47.0 million, an increase of 106%, compared to \$22.8 million for the same period in 2017.
- Gross profit, excluding the impact of biological assets, was \$24.6 million, an increase of 135% compared to \$10.5 million for the 12 months ended December 31, 2017.
- Gross profit margin, excluding the impact of biological assets, was 52% for the 12 months ended December 31, 2018, compared to 46% in the same period the prior year.
- Adjusted EBITDA totaled \$10.3 million for the 12 months ended December 31, 2018, compared to \$6.0 million for the same period in 2017.
- Net loss was \$67.5 million for the 12 months ended December 31, 2018, and includes a non-recurring, non-cash fair value charge of \$50.7 million associated with convertible debt that was converted to equity during the year.

Year End Highlights

Capital Markets, Financing Activities and Growth Strategy

- On November 13, 2018, Harvest raised \$218.1 million in a brokered private placement. In 2018, the company raised approximately \$300 million comprised primarily of: \$50 million of convertible debt, which converted into equity when Harvest completed a reverse takeover (RTO), \$20 million of senior debt, and \$218 million of equity issuances.
The Company has used this cash to:
 - Continue to expand its retail and wholesale footprint focusing on building additional retail, cultivation, and production locations for medical and adult use cannabis.
 - Apply for new licenses and successfully receive them in extremely competitive markets, further establishing management's credibility through a consistent track record of complying with the industry's stringent regulations.
 - Make selective acquisitions of facilities and brands.
- On November 14, 2018, the Company completed the RTO and listed its subordinated voting shares on the Canadian Securities Exchange (the "CSE"). Harvest trades on the CSE under the ticker symbol "HARV" and on the OTCQX under the symbol "HRVSF."

Acquisition Activity

- In November 2018, acquired CBx Enterprises LLC, a Colorado market-leader and intellectual property company ("CBx"). This expanded our brand offering, giving us market-leading manufactured products and added depth to our manufacturing team.
- In November 2018, acquired San Felasco Nurseries, Inc. ("San Felasco"), a holder of a medical marijuana license and authorized to operate as a Medical Marijuana Treatment Center in the state of Florida. Each Medical Marijuana Treatment Center is allowed to operate up to 35 dispensaries, as well as a cultivation and production facility in Florida.
- In February 2019 announced pending acquisition of Falcon International Corp, a California vertically-integrated operator currently serving more than 80% of the legal dispensaries in California. Upon finalization of the acquisition it is expected to serve as a beachhead in California, providing cultivation, manufacturing and distribution, wholesale opportunities, is expected to add

well-regarded brands like Cru and High Garden to our portfolio and is expected to add key personnel to our team.

- In February 2019 entered into a binding agreement to acquire six licenses in Arizona from Devine Holdings, Inc., adding to our national footprint and further deepening our market share in our home state.
- In March 2019 announced pending acquisition of Verano Holdings, LLC (“Verano”), one of the largest privately held multi-state, vertically integrated licensed operators of cannabis facilities. Upon completion of the acquisition it is expected to add licenses throughout the Midwest and East Coast, add edibles to our brand suite, and expected to further strengthen our senior management team.
- In April 2019 announced pending acquisition of CannaPharmacy with assets in New Jersey, Pennsylvania, Delaware and Maryland.

Retail Footprint Expansion

- As of December 31, 2018, the Company operated ten retail locations in four states. Significant expansion of cultivation, manufacturing and retail locations will occur throughout 2019.

Balance Sheet and Liquidity

- As of December 31, 2018, the Company had \$191.9 million of cash and cash equivalents.
- As of December 31, 2018, the Company had \$30.9 million of debt outstanding.
- The Company has raised nearly \$300 million in 2018: approximately \$50 million of convertible equity notes, which converted into common stock when Harvest completed the RTO, approximately \$20 million of senior debt, and over \$218 million of equity issuances.
- For the year, we had a few large non-cash expense items. The largest one was the conversion of convertible equity notes, which we raised prior to our RTO, into equity at our RTO. Our equity value increased between the time we issued the notes and the time we completed our RTO. IFRS requires that we record the difference in value between the issuance value and the conversion value. In this case, the conversion price was \$3.26 per share and the RTO stock was issued at \$6.55 per share, meaning that we expensed \$3.29 per share times 15 million shares that were issued upon conversion of the notes.

Please see the supplemental information (unaudited) regarding Non-IFRS Financial Measures at the end of this press release.

Conference Call and Webcast

Harvest Health and Recreation, Inc. will host a conference call and audio webcast with Executive Chairman Jason Vedadi, Chief Executive Officer Steve White, President Steve Gutterman, and Chief Financial Officer Leo Jaschke, Tuesday April 23rd at 8:00am ET.

To participate in the conference call, please dial:

US toll free +1-866-777-2509

Canada toll free +1-866-605-3852

UK toll free +44-080-823-89064

International dial in +1-412-317-5413

Registration is required; please dial in at least ten minutes prior to the scheduled start time.

Webcast: <https://services.choruscall.com/links/harv190423.html>

The conference call will be available for replay for 3 months at:

<https://services.choruscall.com/links/harv190423.html>

HARVEST HEALTH & RECREATION INC.
Consolidated Statements of Operations
For the Three and Twelve Months Ended December 31, 2018 and 2017
(Amounts expressed in thousands of United States dollars)

Unaudited

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2017	2018	2017
Revenue	\$ 16,943	\$ 7,210	\$ 46,955	\$ 22,825
Cost of Goods Sold	(9,760)	(5,586)	(22,402)	(12,360)
Gross Profit Before Biological Asset Adjustments	<u>7,183</u>	<u>1,624</u>	<u>24,553</u>	<u>10,465</u>
Unrealized Gain on Changes in Fair Value of Biological Asset	267	2,674	5,958	3,559
Cost of Goods Sold on Biological Asset Transformation	-	-	(3,559)	(111)
Gross Profit	<u>7,450</u>	<u>4,298</u>	<u>26,952</u>	<u>13,913</u>
Expenses				
General and Administrative	22,900	1,780	35,658	7,227
Sales and Marketing	557	272	1,079	683
Share-based compensation expense	1,545	-	1,545	-
Depreciation and Amortization	466	623	1,544	850
Total Expenses	<u>25,468</u>	<u>2,675</u>	<u>39,826</u>	<u>8,760</u>
Operating (loss) Income	(18,018)	1,623	(12,874)	5,153
Other Income (Expenses)				
Gain/(loss) on sale of assets	(995)	1,423	566	1,423
Other income/(loss)	(50,716)	-	(50,716)	-
Foreign currency gain/(loss)	512	-	512	-
Interest income/(expense)	(885)	(275)	(1,677)	(371)
(Loss) income Before Taxes and Non-Controlling Interest	<u>(70,102)</u>	<u>2,771</u>	<u>(64,189)</u>	<u>6,205</u>
Income Taxes	(1,423)	(444)	(3,877)	(2,090)
(Loss) Income Before Non-Controlling Interest	<u>(71,525)</u>	<u>2,327</u>	<u>(68,066)</u>	<u>4,115</u>
Loss (income) Attributed to Non-Controlling Interest	<u>437</u>	<u>(1,059)</u>	<u>601</u>	<u>(524)</u>
Net Income (Loss) Attributed to Harvest Health and Recreation Inc.	<u><u>\$ (71,088)</u></u>	<u><u>\$ 1,268</u></u>	<u><u>\$ (67,465)</u></u>	<u><u>\$ 3,591</u></u>

HARVEST HEALTH & RECREATION INC.

Consolidated Statements of Financial Position

December 31, 2018 and 2017

(Amounts expressed in thousands of United States dollars)

Unaudited

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 191,883	\$ 1,099
Restricted cash	8,000	-
Accounts receivable	2,993	497
Notes receivable, current portion	13,600	-
Biological assets	6,788	4,442
Inventory	23,177	1,341
Other current assets	1,810	313
Total current assets	<u>248,251</u>	<u>7,692</u>
Notes receivable, net of current portion	3,076	-
Property, plant and equipment, net	31,855	21,397
Intangibles assets, net	112,830	30,870
Corporate investments	5,000	-
Acquisition deposits	1,350	-
Goodwill	69,407	4,676
Other assets	6,831	430
TOTAL ASSETS	<u>\$ 478,600</u>	<u>\$ 65,065</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 4,694	\$ 1,345
Other current liabilities	6,715	499
Contingent consideration, current portion	11,520	-
Income tax payable	4,120	3,796
Notes payable, current portion	11,806	2,910
Total current liabilities	<u>38,855</u>	<u>8,550</u>
Notes payable, net of current portion	19,098	13,795
Deferred tax liability	18,173	552
Contingent consideration, net of current portion	18,190	-
Other long-term liabilities	4,486	1,196
TOTAL LIABILITIES	<u>98,802</u>	<u>24,093</u>
Capital stock	435,495	34,253
Accumulated (deficit) earnings	(61,269)	6,195
STOCKHOLDERS' EQUITY	<u>374,226</u>	<u>40,448</u>
NON-CONTROLLING INTEREST	5,572	524
TOTAL STOCKHOLDERS' EQUITY	<u>379,798</u>	<u>40,972</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 478,600</u>	<u>\$ 65,065</u>

Non-IFRS Financial and Performance Measures

The Company provides additional financial metrics that are not prepared in accordance with IFRS. Management uses non-IFRS financial measures, in addition to IFRS financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes and to evaluate the Company's financial performance. This non-IFRS financial measure is Adjusted EBITDA.

Management believes that these non-IFRS financial measures reflect the Company's ongoing business in a manner that allows for meaningful comparisons and analysis of trends in the business, as they facilitate comparing financial results across accounting periods and to those of peer companies. Management also believes that these non-IFRS financial measures enable investors to evaluate the Company's operating results and future prospects in the same manner as management. These non-IFRS financial measures may also exclude expenses and gains that may be unusual in nature, infrequent or not reflective of the Company's ongoing operating results.

As there are no standardized methods of calculating these non-IFRS measures, the Company's methods may differ from those used by others, and accordingly, the use of these measures may not be directly comparable to similarly titled measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Reconciliations of Non-IFRS Financial and Performance Measures

The table below reconciles Net (Loss) Income to Adjusted EBITDA for the periods indicated.

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net (loss) income (IFRS) before minority interest	\$ (71,525)	\$ 2,327	\$ (68,066)	\$ 4,115
Add (deduct) impact of:				
Net interest and other financing costs	885	275	1,677	371
Income tax	1,423	444	3,877	2,090
Amortization and depreciation	466	623	1,544	850
(Gain)/Loss On Assets	995	(1,423)	(566)	(1,423)
Fair Value Adjustment of Liability	50,716	-	50,716	-
Foreign Currency Gain	(512)	-	(512)	-
Share-Based Compensation Expense	1,545	-	1,545	-
Other Expansion Expenses (Pre-Opening)	5,876	-	5,876	-
Transaction & Other Special Charges	12,760	-	14,174	-
Adjusted EBITDA (non-IFRS)	<u>\$ 2,629</u>	<u>\$ 2,246</u>	<u>\$ 10,265</u>	<u>\$ 6,003</u>

About Harvest Health and Recreation

Harvest Health & Recreation Inc. is one of the first consistently profitable, vertically integrated cannabis companies with one of the largest footprints in the U.S. Harvest's complete vertical solution includes industry-leading cultivation, manufacturing, and retail facilities, construction, real estate, technology, operational, and brand building expertise — leveraging in-house legal, HR and marketing teams, along with proven experts in writing and winning state-based applications. The company has more than 750 employees with proven experience, expertise and knowledge of in-house best practices that are drawn upon whenever Harvest enters new markets. Harvest's executive team is comprised of leaders in finance, compliance, real estate and operations. Since its founding in 2011, Harvest has grown its footprint every year, has been ranked as the third largest cultivator in the U.S. and, subject to completion of announced acquisitions, will have rights to operate up to 200 facilities, of which 123 are retail locations, across the U.S. Harvest shares timely updates and releases as part of its regular course of business with the media and the interested public. For more information, visit: <https://www.harvestinc.com/>.

Contact

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Forward-Looking Information

Certain statements in this press release are forward-looking statements and are prospective in nature. Forward-looking statements are not based on historical facts, but rather on current expectations and projections about future events, many of which, by their nature, are inherently uncertain and outside of the Company's control and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements.

These statements generally can be identified by the use of forward-looking words such as "may", "should", "will", "could", "intend", "estimate", "plan", "anticipate", "expect", "believe" or "continue", or the negative thereof or similar variations. Forward-looking statements in this news release include, but are not limited to, information concerning the ability of the Company to successfully achieve business objectives, and expectations for other economic, business, and/or competitive factors. Those assumptions and factors are based on information currently available to the Company. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements or forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Among the key factors that could cause actual results to differ materially from those projected in the forward-looking information and statements are the following: the ability of the Company to develop the Company's brand and meet its growth objectives, the ability of the Company to complete acquisitions that are accretive to the Company's revenue, the ability of the Company to obtain and/or maintain licenses to operate in the jurisdictions in which it operates or in which it expects or plans to operate. Should one or more of these risks, uncertainties or other factors materialize, or should assumptions underlying the forward-looking information or statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Readers should not place undue reliance on forward-looking statements and forward-looking information. The forward-looking information contained in this release is made as of the date hereof and the Company assumes no obligation to update or revise any forward-looking statements or forward-looking information

that are incorporated by reference herein, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

The foregoing statements expressly qualify any forward-looking information contained herein. All subsequent written and oral forward-looking information and statements attributable to the Company or persons acting on its behalf is expressly qualified in its entirety by this notice.

Additional Information

The financial information reported in this news release is based on unaudited management prepared financial statements for the year ended December 31, 2018. Accordingly, such financial information may be subject to change. The audit process is nearly complete and fully-audited financial statements for the period will be released and filed under the Company's profiles on SEDAR at www.SEDAR.com by April 30, 2019. All financial information contained in this news release is qualified in its entirety with reference to such audited financial statements. While the Company does not expect there to be any material changes, to the extent that the financial information contained in this news release is inconsistent with the information contained in the Company's audited financial statements, the financial information contained in this news release shall be deemed to be modified or superseded by the Company's audited financial statements. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation for purposes of applicable securities laws.