

Harvest Health & Recreation, Inc. Reports

Second Quarter 2019 Financial Results

- *Total revenue for the second quarter was \$26.6 million, up 39% from the first quarter 2019 (all dollars are U.S. dollars)*
- *Adjusted EBITDA for the second quarter totaled (\$2.2) million*

PHOENIX--[Harvest Health & Recreation, Inc.](#) (CSE: HARV, OTCQX: HRVSF), vertically-integrated cannabis company with one of the largest and deepest footprints in the U.S., today reported the company's second quarter fiscal year 2019 financial results. Harvest has continued to be successful in winning licenses in non-competitive and competitive application processes throughout the country and has announced several significant strategic acquisitions and mergers. Harvest's ability to combine size, scale, capital, regulatory expertise and operational excellence are paramount to its success.

"During the second quarter, Harvest continued to execute on its strategy by adhering to our four core initiatives: building a world class team, expanding our retail and wholesale footprint across the U.S., building and acquiring brands and distributing them across our footprint and continuing on a path of profitable growth we believe that we can fulfill our objective of becoming the most valuable cannabis company in the world," said Chief Executive Officer Steve White.

Financial Highlights for the Second Quarter Ended June 30, 2019

- Total revenue was \$26.6 million, an increase of 39%, compared to \$19.2 million in the first quarter of 2019.
- On a pro forma basis, Harvest along with completed and pending disclosed acquisitions, generated \$78 million of revenue in the second quarter, or over \$310 million annualized. Second quarter pro forma revenue increased 53% over first quarter pro forma revenue of \$51 million.
- Gross profit was \$16.9 million compared to \$7.9 million in the first quarter of 2019.
- Gross profit margin was 64% compared to 41% for the first quarter of 2019.
- Adjusted EBITDA was (\$2.2) million, compared to (\$4.7) million in the first quarter of 2019.
- Net loss was \$20.6 million for the second quarter which is reflective of the planned investments in people and infrastructure to support the company's growth initiatives and planned expansion.

Business Highlights

Footprint Expansion

As of June 30, 2019, the Company operated 16 retail locations compared to 13 retail locations at the end of March 31, 2019. During the quarter, the Company announced the pending acquisition of Cannapharmacy, the award of a retail dispensary license in Pasadena, CA, and

opened three additional retail locations in Florida. Subsequent to quarter end, the Company added six retail locations in Arizona, California, Florida, and North Dakota and was one of eight companies selected to move forward to finalize a cultivation license in Utah. Significant expansion of cultivation, manufacturing and retail locations is expected to occur for the remainder of 2019.

Brand and Product Distribution

During the second quarter, the Company announced an agreement with the Asian American Trade Associations Council to distribute Colors, CBx Essentials, and Harvest branded CBD product lines to more than 10,000 retail locations within the AATAC retailer network.

Financing Activities

- During the quarter Harvest closed on an initial \$100 million tranche of an available \$500 million of convertible debentures. The debentures are issuable, at Harvest's sole discretion, in tranches of \$100 million and have a 7% interest rate. The initial tranche of debentures will be convertible at the option of the holder to Subordinate Voting Shares of Harvest at a price of \$11.42 per Subordinate Voting Share.
- Subsequent to quarter end, the Company announced the signing of a term sheet for a secured term loan for up to \$225 million from an investment fund managed by Torian Capital. The expected loan will be made available to Harvest in three tranches of \$75 million, each with substantially identical terms. The loan will be secured by certain current and future assets of Harvest, including cannabis related licenses.

As of June 30, 2019, the Company had \$89.9 million of cash and cash equivalents.

As of June 30, 2019, the Company had \$105.1 million of debt outstanding.

Team Growth

- During the second quarter, Harvest significantly added to its management team, including the hiring of: Nicole Stanton, General Counsel; Allyson Wilcox, Assistant General Counsel, Alex Howe, Head of Corporate Communications and Christine Hersey as Director of Investor Relations. Nicole Stanton has over 20 years' experience and was the first female to lead a national law firm in Phoenix with leadership roles in the community as founder of Stop Bullying AZ and First Lady of Phoenix. Allyson Wilcox has over 15 years' experience as an attorney and has taken a leadership role at Harvest leading the Regulatory Compliance and Licensing Departments. Alex Howe has nearly two decades experience in corporate communications with Fortune 50, corporate, tech, consumer, and cannabis companies and leads the company's external and internal communications. Christine Hersey has over 15 years' experience as a buy side and sell side analyst covering high growth and complex sectors.
- Subsequent to quarter end, Harvest welcomed Michael Aguirre as Assistant General Counsel. Michael Aguirre has 14 years' experience serving companies across a wide range of industries and adds M&A and financing capabilities to the growing legal team.

- Harvest continues to build out its team, ending Q2 with 782 FTEs, up from 476 FTEs at the end of Q1 2019.

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

Conference Call & Webcast

Harvest Health and Recreation, Inc. will host a conference call and audio webcast with Chief Executive Officer Steve White, President Steve Gutterman and Chief Financial Officer Leo Jaschke, Thursday August 15th at 8:00am ET.

To participate in the conference call, please dial:

US toll free: + 1-844-695-5522

Canada toll free: + 1-866-605-3852

UK toll free: + 08082389064

International dial in: + 1-412-317-5448

[Registration is required](#); please plan to dial in at least ten minutes prior to the scheduled start time.

Second quarter results will be available at:

<https://www.harvestinc.com/investors/investors/#financial-information>

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

<https://services.choruscall.com/links/harv190815.html>

HARVEST HEALTH & RECREATION INC.

Interim Unaudited Condensed Consolidated Statements of Operations

Three and Six Months Ended June 30, 2019 and 2018

(Amounts expressed in thousands of United States dollars, except share or per share data)

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Revenue	\$ 26,596	\$ 10,524	\$ 45,836	\$ 18,859
Cost of goods sold	(19,915)	(3,059)	(31,250)	(7,077)
Gross profit, before biological asset adjustments	6,681	7,465	14,586	11,782
Unrealized gain on changes in fair value of biological asset	17,969	2,133	23,741	2,133
Cost of goods sold on biological asset transformation	(7,740)	(3,929)	(13,475)	(3,559)
Gross profit	16,910	5,669	24,852	10,356
Expenses				
General and administrative	21,764	3,218	40,150	5,786
Sales and marketing	2,053	234	3,642	437
Share-based compensation expense	8,094	—	11,397	—
Depreciation and amortization	1,600	359	3,093	736
Total expenses	33,511	3,811	58,282	6,959
Operating (loss) income	(16,601)	1,858	(33,430)	3,397
Other (expense) income				
Gain on sale of assets and impairment, net	90	1,526	90	1,526
Other (loss) income	(200)	—	(249)	—
Foreign currency (loss) gain	(403)	—	(778)	—
Interest expense	(2,439)	(185)	(3,214)	(305)
(Loss) income before taxes and non-controlling interest	(19,553)	3,199	(37,581)	4,618
Income taxes	(1,637)	(812)	(4,035)	(1,420)
(Loss) income before non-controlling interest	(21,190)	2,387	(41,616)	3,198
Loss (income) attributed to non-controlling interest	590	443	968	878
Net (loss) income attributed to Harvest Health & Recreation Inc.	(20,600)	2,830	(40,648)	4,076
(Loss) income per share - basic and diluted	\$ (0.07)		\$ (0.14)	
Attributable to Harvest Health and Recreation Inc. Stockholders	\$ (0.07)		\$ (0.15)	
Attributable to non-controlling interest	\$ 0.00		\$ 0.00	
Weighted-average shares outstanding - basic and diluted	285,071,254		284,690,893	

HARVEST HEALTH & RECREATION INC.
Interim Unaudited Condensed Consolidated Statements of Financial Position
June 30, 2019 and 2018
(Amounts expressed in thousands of United States dollars)

	June 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 89,913	\$ 191,883
Restricted cash	8,000	8,000
Accounts receivable, net	8,759	2,993
Notes receivable, current portion	34,539	13,600
Biological assets	9,869	6,788
Inventory	39,046	23,177
Other current assets	5,252	1,810
Total current assets	<u>195,378</u>	<u>248,251</u>
Notes receivable, net of current portion	18,598	3,076
Property, plant and equipment, net	121,356	31,855
Right-of-use asset, net	39,260	—
Intangibles assets, net	131,068	112,830
Corporate investments	5,000	5,000
Acquisition deposits	5,416	1,350
Goodwill	73,836	69,407
Other assets	8,149	6,830
TOTAL ASSETS	<u><u>\$ 598,061</u></u>	<u><u>\$ 478,599</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 7,337	\$ 4,694
Other current liabilities	12,696	6,715
Contingent consideration, current portion	11,188	11,520
Income tax payable	5,084	4,120
Lease liability, current portion	2,220	—
Notes payable, current portion	7,013	11,806
Total current liabilities	<u>45,538</u>	<u>38,855</u>
Notes payable, net of current portion	98,079	19,098
Lease liability, net of current portion	38,763	—
Deferred tax liability	20,028	18,173
Contingent consideration, net of current portion	18,245	18,190
Other long-term liabilities	250	4,486
TOTAL LIABILITIES	<u>220,903</u>	<u>98,802</u>
STOCKHOLDERS' EQUITY:		
Capital stock	475,063	435,495
Accumulated deficit	<u>(102,509)</u>	<u>(61,270)</u>
Stockholders' equity attributed to Harvest Health & Recreation Inc.	372,554	374,225
Non-controlling interest	4,604	5,572
TOTAL STOCKHOLDERS' EQUITY	<u>377,158</u>	<u>379,797</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 598,061</u></u>	<u><u>\$ 478,599</u></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 June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net (loss) income (IFRS) before non-controlling interest	\$ (21,190)	\$ 2,387	\$ (41,616)	\$ 3,198
Add (deduct) impact of:				
Net interest and other financing costs (1)	2,961	185	3,736	305
Income tax	1,637	812	4,035	1,420
Amortization and depreciation (2)	2,130	359	4,206	736
(Gain)/loss on assets	(90)	(1,526)	(90)	(1,526)
Other income (loss)	200	—	249	—
Foreign currency loss	403	—	778	—
Share-based compensation expense	8,094	—	11,397	—
Other expansion expenses (pre-open)	1,365	—	2,495	—
Transaction & other special charges	2,337	—	7,959	—
Adjusted EBITDA (non-IFRS)	<u>\$ (2,153)</u>	<u>\$ 2,217</u>	<u>\$ (6,851)</u>	<u>\$ 4,133</u>

(1) Includes \$190, \$-, \$520, and \$- of interest reported in cost of sales.

(2) Includes \$530, \$-, \$1,113, and \$- of depreciation reported in cost of sales.

About Harvest Health & Recreation, Inc.

Headquartered in Tempe, Arizona, Harvest Health & Recreation, Inc. is a multi-state cannabis operator (MSO) and vertically-integrated cannabis company. Subject to completion of announced acquisitions, Harvest will have one of the largest footprints in the U.S., with rights to more than 210 facilities, of which approximately 135 are retail locations, and more than 1,700 employees across 18 states and territories. Since 2011, the company has been committed to expanding its Harvest House of Cannabis retail and wholesale presence throughout the U.S., acquiring, creating and growing leading brands for patients and consumers nationally and continuing on a path of profitable growth. Harvest's mission is to improve lives through the goodness of cannabis and is focused on its vision to become the most valuable cannabis company in the world. We hope you'll join us on our journey: <https://harvestinc.com>.

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Forward-looking Statements

This press release contains statements which constitute "forward-looking information" within the meaning of applicable securities laws, including statements regarding the plans, intentions, beliefs and current expectations of Harvest with respect to future business activities. Forward-looking information is often identified by the words "may," "would," "could," "should," "will," "intend," "plan," "anticipate," "believe," "estimate," "expect" or similar expressions and include information regarding: (i) expectations regarding the size of the U.S. cannabis market, (ii) the ability of the Company to successfully achieve its business objectives, (iii) plans for expansion of Harvest, and (iv) expectations for other economic, business, and/or competitive factors.

Investors are cautioned that forward-looking information is not based on historical facts but instead reflects Harvest management's expectations, estimates or projections concerning future results or events based on the opinions, assumptions and estimates of management considered reasonable at the date the statements are made. Although Harvest believes that the expectations reflected in such forward-looking information are reasonable, such information involves risks and uncertainties, and undue reliance should not be placed on such information, as unknown or unpredictable factors could have material adverse effects on future results, performance or achievements of the combined Company. Among the key factors that could cause actual results to differ materially from those projected in the forward-looking information are the following: the ability of Harvest to develop Harvest's brand and meet its growth objectives, the ability of Harvest to complete planned acquisitions that are accretive to its revenue, the ability of Harvest to obtain and/or maintain licenses to operate in the jurisdictions in which it operates or in which it expects or plans to operate; changes in general economic, business and political conditions,

including changes in the financial markets; and in particular the ability of the Company to raise debt and equity capital in the amounts and at the costs that it expects; adverse changes in the public perception of cannabis; decreases in the prevailing prices for cannabis and cannabis products in the markets that the Company operates in; adverse changes in applicable laws; or adverse changes in the application or enforcement of current laws, including those related to taxation; the inability to locate and acquire suitable companies, properties and assets necessary to execute on the Company's business plans; and increasing costs of compliance with extensive government regulation. This forward-looking information may be affected by risks and uncertainties in the business of Harvest and market conditions.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking information prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. Although Harvest has attempted to identify important risks, uncertainties and factors which could cause actual results to differ materially, there may be others that cause results not to be as anticipated, estimated or intended. Harvest does not intend, and does not assume any obligation, to update this forward-looking information except as otherwise required by applicable law.

Additional Information

The financial information reported in this news release is based on unaudited management prepared financial statements for the quarter ended June 30, 2019. Accordingly, such financial information may be subject to change. Financial statements for the period will be released and filed under the Company's profiles on SEDAR at www.SEDAR.com by August 30, 2019. All financial information contained in this news release is qualified in its entirety with reference to such unaudited 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 unaudited financial statements, the financial information contained in this news release shall be deemed to be modified or superseded by the Company's unaudited 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.

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