HARVEST HEALTH & RECREATION INC.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(Expressed in thousands of United States dollars)

HARVEST HEALTH & RECREATION INC.
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INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HARVEST HEALTH & RECREATION INC.

Interim Unaudited Condensed Consolidated Statements of Financial Position
September 30, 2020 and December 31, 2019
(Amounts expressed in thousands of United States dollars)

	Note	September 30, 2020	December 31, 2019*
ASSETS			
Current assets:			
Cash and cash equivalents		$ 66,214	$ 22,685
Restricted cash		4,542	8,000
Accounts receivable, net	*4*	17,385	12,147
Notes receivable, current portion	*7*	42,072	51,349
Biological assets	*6*	26,515	8,057
Inventory, net	*5*	41,017	28,774
Other current assets		5,445	4,788
Total current assets		203,190	135,800
Notes receivable, net of current portion	*7*	7,078	34,430
Property, plant and equipment, net	*8*	158,838	149,867
Right-of-use asset, net	*9*	67,082	56,955
Intangibles assets, net	*11*	263,924	159,209
Corporate investments	*10*	19,091	—
Acquisition deposits		528	3,645
Goodwill	*11*	120,671	84,596
Assets held for sale	*3*	5,948	2,444
Other assets		20,654	8,618
TOTAL ASSETS		$ 867,004	$ 635,564
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Current liabilities:			
Accounts payable		$ 6,145	$ 6,969
Other current liabilities		29,037	21,944
Contingent consideration, current portion	*10*	17,446	13,764
Income tax payable		8,104	5,310
Lease liability, current portion	*9*	8,294	2,885
Notes payable, current portion	*12*	50,110	8,395
Total current liabilities		119,136	59,267
Notes payable, net of current portion	*12*	243,599	202,619
Lease liability, net of current portion	*9*	61,862	54,621
Deferred tax liability		56,987	28,587
Contingent consideration, net of current portion	*10*	1,108	16,249
Other long-term liabilities		208	179
TOTAL LIABILITIES		482,900	361,522
STOCKHOLDERS' EQUITY			
Capital stock	*15*	652,713	505,709
Accumulated deficit		(275,764)	(235,348)
Stockholders' equity attributed to Harvest Health & Recreation Inc.		376,949	270,361
Non-controlling interest		7,155	3,681
TOTAL STOCKHOLDERS' EQUITY		384,104	274,042
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 867,004	$ 635,564

*Certain reclassifications have been made for assets held for sale (*Note 3*) Nature of operations (*Note 1*)
Commitments and contingencies (*Note 17*)

Approved and authorized on behalf of the Board of Directors on November 6, 2020

/s/ Steve White
Chief Executive Officer

/s/ Deborah Keeley
Chief Financial Officer

The accompanying notes to the Interim Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

HARVEST HEALTH & RECREATION INC.

Interim Unaudited Condensed Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2020 and 2019
(Amounts expressed in thousands of United States dollars, except share or per share data)

	Note	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Revenue, net of discounts		$ 61,643	$ 33,151	$ 161,547	$ 78,987
Cost of goods sold		(32,934)	(21,532)	(91,266)	(52,782)
Gross profit before biological asset adjustments		28,709	11,619	70,281	26,205
Realized fair value amounts included in inventory sold		(24,769)	(17,644)	(53,996)	(31,119)
Unrealized fair value gain on growth of biological assets	*5*	34,385	17,901	74,258	36,748
Gross profit		38,325	11,876	90,543	31,834
Expenses					
General and administrative	*14*	20,736	30,998	65,871	71,148
Sales and marketing		834	2,895	3,355	6,537
Share-based compensation	*13*	1,268	7,718	18,348	19,115
Depreciation and amortization	*8,9,11*	3,551	4,491	10,529	7,584
Total expenses		26,389	46,102	98,103	104,384
Operating income (loss)		11,936	(34,226)	(7,560)	(72,550)
Other (expense) income					
Gain (loss) on sale of assets		(140)	116	760	206
Other (expense) income		(32)	(629)	10,223	(878)
Foreign currency gain (loss)		26	277	(82)	(501)
Interest expense		(13,224)	(5,512)	(32,574)	(8,726)
Contract asset impairment		—	—	(2,420)	—
Loss before taxes and non-controlling interest		(1,434)	(39,974)	(31,653)	(82,449)
Income taxes		(206)	464	(5,132)	(3,571)
Loss from continuing operations before non-controlling interest		(1,640)	(39,510)	(36,785)	(86,020)
Net loss from discontinued operations, net of tax		(131)	—	(1,420)	—
Net loss before non-controlling interest		(1,771)	(39,510)	(38,205)	(86,020)
Loss (gain) attributed to non-controlling interest		(370)	415	(2,211)	1,383
Net loss attributed to Harvest Health & Recreation Inc.		$ (2,141)	$ (39,095)	$ (40,416)	$ (84,637)
Loss per share - basic and diluted	*16*	$ (0.01)	$ (0.14)	$ (0.12)	$ (0.30)
Attributable to Harvest Health and Recreation Inc. Stockholders		$ (0.00)	$ (0.14)	$ (0.11)	$ (0.30)
Attributable to discontinued operations, net of tax		$ —	$ —	$ —	$ —
Attributable to non-controlling interest		$ (0.00)	$ 0.00	$ (0.01)	$ 0.00
Weighted-average shares outstanding - basic and diluted	*16*	367,340,268	288,137,942	345,366,810	285,853,929

The accompanying notes to the Interim Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

HARVEST HEALTH & RECREATION INC.
Interim Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity
Three and Nine Months Ended September 30, 2020 and 2019
(Amounts expressed in thousands of United States dollars, except share data)

		Number of Shares			$ Amount				
	Note	**Super Voting Shares**	**Multiple Voting Shares**	**Subordinate Voting Shares**	**Harvest Capital Stock**	**Accumulated Deficit**	**Total Harvest Stockholders' Equity**	**Non-Controlling Interest**	**TOTAL STOCKHOLDERS' EQUITY**
BALANCE—January 1, 2020		2,000,000	1,813,388	105,786,727	$505,709	$ (235,348)	$ 270,361	$ 3,681	$ 274,042
Shares issued	*15*	—	418,439	—	58,999	—	58,999	—	58,999
Deconsolidation of Ohio entity		—	—	—	—	—	—	1,388	1,388
Shares issued in connection with acquisitions	*10*	—	307,169	283,550	59,785	—	59,785	—	59,785
Conversions to subordinate voting shares		—	(37,003)	3,700,300	—	—	—	—	—
Discount on notes payable	*12*	—	—	—	3,657	—	3,657	—	3,657
Conversion feature on notes payable	*12*	—	—	—	628	—	628	—	628
Share-based compensation	*13*	—	—	—	13,804	—	13,804	—	13,804
Net loss		—	—	—	—	(19,990)	(19,990)	(88)	(20,078)
BALANCE—March 31, 2020		2,000,000	2,501,993	109,770,577	$642,582	$ (255,338)	$ 387,244	$ 4,981	$ 392,225
Shares issued	*15*	—	36,993	1,286,513	5,647	—	5,647	—	5,647
Conversions to subordinate voting shares		—	(211,323)	21,132,382	—	—	—	—	—
Equity method investment adjustment		—	—	—	—	—	—	(125)	(125)
Share-based compensation	*13*	—	—	—	3,276	—	3,276	—	3,276
Net loss		—	—	—	—	$ (18,285)	(18,285)	$ 1,929	(16,356)
BALANCE—June 30, 2020		2,000,000	2,327,663	132,189,472	$651,505	$ (273,623)	$ 377,882	$ 6,785	$ 384,667
Shares issued	*15*	—	4,454	132,925	(60)	—	(60)	—	(60)
Conversions to subordinate voting shares		—	(539,729)	53,972,942	—	—	—	—	—
Share-based compensation	*13*	—	—	—	1,268	—	1,268	—	1,268
Net loss		—	—	—	—	$ (2,141)	(2,141)	$ 370	(1,771)
BALANCE—September 30, 2020		2,000,000	1,792,388	186,295,339	$652,713	$ (275,764)	$ 376,949	$ 7,155	$ 384,104
BALANCE—December 31, 2018		2,000,000	2,179,691	63,358,934	$435,495	$ (61,270)	$ 374,225	$ 5,572	$ 379,797
Adoption of IFRS 16		—	—	—	—	(591)	(591)	—	(591)
Restated total equity at January 1, 2019		2,000,000	2,179,691	63,358,934	435,495	(61,861)	373,634	5,572	379,206
Shares issued	*15*	—	10,256	—	—	—	—	—	—
Exercise of warrants	*14*	—	—	24,798	163	—	163	—	163
Conversions to subordinate voting shares		—	(42,217)	4,221,700	—	—	—	—	—
Share-based compensation	*13*	—	—	—	3,303	—	3,303	—	3,303
Net loss		—	—	—	—	(20,048)	(20,048)	(378)	(20,426)
BALANCE—March 31, 2019		2,000,000	2,147,730	67,605,432	$438,961	$ (81,909)	$ 357,052	$ 5,194	$ 362,246
Shares issued	*15*	—	1,993	21,725	1,526	—	1,526	—	1,526
Exercise of warrants	*14*	—	—	760,671	4,982	—	4,982	—	4,982
Conversions to subordinate voting shares		—	(260,424)	26,042,386	—	—	—	—	—
Share-based compensation	*13*	—	—	—	8,094	—	8,094	—	8,094
$100MM convertible debt issuance - debt discount	*12*	—	—	—	13,039	—	13,039	—	13,039
$100MM convertible debt issuance - equity warrants	*12*	—	—	—	8,461	—	8,461	—	8,461
Net loss		—	—	—	—	(25,494)	(25,494)	(590)	(26,084)
BALANCE—June 30, 2019		2,000,000	1,889,299	94,430,214	$475,063	$ (107,403)	$ 367,660	$ 4,604	$ 372,264
Shares issued	*15*	—	1,524	10,766	771	—	771	—	771
Shares issued in connection with acquisitions	*10*	—	33,629	—	18,512	—	18,512	—	18,512
Conversions to subordinate voting shares	*14*	—	(17,245)	1,724,460	—	—	—	—	—
Share-based compensation	*13*	—	—	—	7,718	—	7,718	—	7,718
Net loss		—	—	—	—	(39,095)	(39,095)	(415)	(39,510)
BALANCE—September 30, 2019		2,000,000	1,907,207	96,165,440	$502,064	$ (146,498)	$ 355,566	$ 4,189	$ 359,755

The accompanying notes to these Interim Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

HARVEST HEALTH & RECREATION INC.
Interim Unaudited Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2020 and 2019
(Amounts expressed in thousands of United States Dollars, except per share data)

	Note	For the nine months ended September 30, 2020	2019
CASH FLOW FROM OPERATING ACTIVITIES			
Net loss		$ (38,205)	$ (86,020)
Adjustments to reconcile net loss to net cash from operating activities			-
Depreciation and amortization	*8,9,11*	13,089	9,099
Amortization of debt issuance costs	*12*	3,106	1,036
Amortization of debt discount		4,059	1,487
Amortization of warrant expense		3,418	1,105
Noncash gain on earnout		(13,897)	-
Noncash gain on deconsolidation		(6,244)	-
Noncash loss of derecognition of asset		4,521	71
Loss on lease derecognition		1,556	(183)
Gain on lease derecognition from discontinued operations		(463)	-
Gain on disposition of held for sale assets		(2,150)	-
Realized fair value amounts included in inventory sold		53,996	31,119
Unrealized fair value gain on growth of biological assets	*6*	(74,258)	(36,748)
Unrealized exchange loss		—	501
Deferred income tax expense		(974)	518
Share-based compensation	*13*	18,348	19,115
Provision for bad debts and credit losses		2,628	689
Right of use asset depreciation from discontinued operations		474	-
Changes in operating assets and liabilities:			-
Accounts receivable		(3,134)	(8,408)
Inventory	*5*	(7,729)	(12,475)
Biological assets	*6*	9,394	1,711
Other assets		(5,789)	(1,768)
Income taxes payable		3,968	1,734
Accrued expenses and other liabilities		14,715	12,397
Accounts payable		3,035	5,832
Prepaid expenses		(484)	(5,764)
NET CASH USED IN OPERATING ACTIVITIES		(17,020)	(64,952)
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of businesses, net of cash acquired	*10*	(14,298)	(31,176)
Acquisitions/advances of intangibles	*11*	(1,180)	(12,410)
Divestment of California entities		(2,358)	—
Prepayment of acquisition consideration		4,697	(4,561)
Purchases of property, plant and equipment	*8*	(20,212)	(102,203)
Issuance of notes receivable	*7*	(1,387)	(73,674)
Payments received on notes receivable	*7*	8,825	9,829
NET CASH USED IN INVESTING ACTIVITIES		(25,913)	(214,195)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from exercise of warrants		—	5,145
Proceeds/issuance of equity on private offering	*15*	58,999	—
Proceeds/issuance of convertible notes payable	*12*	—	100,000
Proceeds/issuance of notes payable	*12*	40,773	19,765
Repayment of notes payable	*12*	(6,977)	(10,688)
Payment of lease liabilities	*9*	(4,439)	(2,356)
Payment of lease liabilities from discontinued operations		—	(1,501)
Fees paid for debt financing activities	*12*	(1,894)	(4,811)
NET CASH PROVIDED BY FINANCING ACTIVITIES		86,462	105,554
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		43,529	(173,593)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		22,685	191,883
CASH AND CASH EQUIVALENTS, END OF PERIOD		$ 66,214	$ 18,290

The accompanying notes to these Interim Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

HARVEST HEALTH & RECREATION INC.
Interim Unaudited Condensed Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2020 and 2019
(Amounts expressed in thousands of United States Dollars, except per share data)

	For the nine months ended September 30,	
Supplemental disclosure with respect to cash flows	**2020**	**2019**
Interest paid	$ 21,073	$ 3,422
Taxes paid	$ 5,680	$ 2,500
Supplemental disclosure of non-cash activities		
Right-of-use assets obtained in exchange of lease liabilities	$ 18,658	$ 18,908
Shares issued for business acquisitions	$ 59,627	$ —
Shares issued for the acquisition of intangible licenses	$ —	$ 1,526
Notes payable issued for the acquisition of intangible licenses	$ —	$ 1,470
Notes payable issued for the acquisition of land	$ —	$ 4,650

The accompanying notes to these Interim Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

(Amounts expressed in thousands of United States dollars)

1. NATURE OF OPERATIONS

Harvest Health & Recreation Inc., a British Columbia corporation (the "Company" or "Harvest") is a vertically integrated cannabis company that operates from "seed to sale." The Company holds licenses or provides services to cannabis dispensaries in Arizona, Arkansas, California, Florida, Maryland, Nevada, North Dakota and Pennsylvania with provisional licenses in Massachusetts. In addition, the Company owns CO_2 extraction, distillation, purification and manufacturing technology used to produce a line of therapeutic cannabis topicals, vapes and gems featuring cannabinoids and a hemp-derived product line sold in Colorado. The Company also owns, manufactures and distributes a portfolio of cannabis consumer packaged goods brands, including *ROLL ONE*, *MODERN FLOWER*, *EVOLAB*, *CHROMA*, *CO_2LORS*, *ALCHEMY* and *CBX SCIENCES*, to third-party licensed retail cannabis stores across the United States as well as to select retail stores the Company owns or operates, in addition to providing support services and financing to a Utah-licensed medical cannabis cultivator.

The Company operates in one segment, the cultivation, processing and sale of cannabis. The Company grows cannabis in outdoor, indoor, and greenhouse facilities for sale in its retail locations and for wholesale. In addition, the Company converts cannabis biomass into formulated oil using a variety of proprietary extraction techniques. The Company uses some of this oil to manufacture products such as vaporizer cartridges and edibles. Harvest sells cannabis, oil, and manufactured products in Harvest dispensaries and to third parties for resale. In addition, the Company collects licensing fees from third-parties associated with operations at certain cultivation, manufacturing or retail facilities.

Harvest conducts business through wholly-owned and majority-owned operating subsidiaries, operating agreements and other commercial arrangements established to conduct the different business areas of each business (each an "Operating Subsidiary" and together, "Operating Subsidiaries"). The Company's principal operating locations and type of operation are listed below:

State	Nature of Operations	Commencement Periods
Arizona - 15 locations	Retail Dispensary	September 2013 - September 2020
Arkansas - 1 location	Retail Dispensary	February 2020
California - 4 locations	Retail Dispensary	December 2018 - October 2019
Florida - 6 locations	Retail Dispensary	February 2019 - July 2019
Maryland - 3 locations	Retail Dispensary	September 2018 - December 2019
North Dakota - 2 locations	Retail Dispensary	July 2019 - August 2019
Pennsylvania - 6 locations	Retail Dispensary	September 2018 - September 2020
Washington - 5 locations[1]	Retail Dispensary Services	March 2020
Arizona	Greenhouse/Outdoor Grow/Processing Lab	July 2015 - February 2020
Florida	Cultivation/Processing	February 2019 - December 2019
Nevada	Cultivation/Processing	August 2020
Maryland	Cultivation/Processing	September 2017 - July 2019
Pennsylvania	Cultivation/Processing	March 2020

[1] See Note 17 (Commitments and Contingencies – Washington Entities Arbitration) with respect to the disputed termination of the Company's service agreements with the licensees of the Washington locations and Note 18 (Subsequent Events – Washington Retailer Settlement).

The Company is in various stages of expansion as it is growing its commercial footprint by focusing on acquiring and building additional retail, cultivation and processing locations for medical and adult use cannabis in its existing key markets.

Each Operating Subsidiary either holds the active and/or pending cannabis licenses associated with its activities, or has a commercial arrangement with the operating locations, and/or owns the real estate and primary fixed assets used in the cannabis businesses.

In certain states, cannabis licenses are typically divided into three categories: dispensary, cultivation, and processing. Dispensary licenses comprise the retail operations and allow a company to dispense cannabis to patients. Cultivation licenses allow a company to grow cannabis plants. Processing licenses allow for the processing of cannabis into other products (e.g., edibles, oil, etc.). Cultivation and processing licenses comprise the wholesale operations.

In other states, cannabis licenses are defined as vertically integrated, which allows the license holder the right to engage in dispensary, cultivation, and processing activities.

The Company's corporate headquarters is located at 1155 W. Rio Salado Parkway, Suite 201, Tempe, AZ, 85281. The Company has one class of stock that is traded on the Canadian Stock Exchange ("CSE") and on the OTCQX International tier of the OTC Markets in the U.S. (the "OTCQX") under the symbol HARV and HRVSF, respectively. The stock price between the CSE and the OTCQX are identical after the U.S./Canadian currency exchange conversion.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The Interim Unaudited Condensed Consolidated Financial Statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") for the three and nine months ended September 30, 2020 and 2019 and for the period ended September 30, 2020 and December 31, 2019 using policies consistent with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the IFRS Interpretations Committee ("IFRIC").

The Interim Unaudited Condensed Consolidated Financial Statements do not include all of the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements as of December 31, 2019. The accounting policies and critical estimates applied by the Company in these interim unaudited condensed consolidated financial statements are consistent with those applied in the preparation of the Company's audited consolidated financial statements as of and for the year ended December 31, 2019, except for the adoption of new accounting pronouncements as set out below.

The Interim Unaudited Condensed Consolidated Financial Statements of the Company for the three and nine months ended September 30, 2020 and 2019 were approved and authorized by the Board of Directors of the Company on November 6, 2020.

(b) Functional Currency

These Interim Unaudited Condensed Consolidated Financial Statements are presented in United States dollars, which is also the functional currency of the Company and its affiliates.

(c) Basis of Consolidation

These Interim Unaudited Condensed Consolidated Financial Statements as of and for the three and nine months ended September 30, 2020 include the accounts of Harvest, or the "Company," its wholly-owned subsidiaries and entities over which the Company has control as defined in IFRS 10 *Consolidated Financial Statements* ("IFRS 10"). Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable are taken into account. All of the consolidated entities were under common control during the entirety of the periods for which their respective results of operations were included in the consolidated statements (i.e., from the date of their acquisition). All intercompany balances and transactions are eliminated on consolidation.

Companies over which Harvest has significant influence, but does not control, are accounted for under the equity method. Significant influence is assumed when the Company has 20%-50% ownership interest, unless qualitative factors overcome this assumption. Investments in unconsolidated affiliates that represent less than 20% of the related ownership interests and where the Company does not have the ability to exert significant influence are accounted for under the fair value method.

(d) Discontinued Operations

The Company followed IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to report for assets held for sale and discontinued operations. See Note 3 for additional information.

(e) Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to the current year presentation. The reclassifications had no impact on the previously reported net loss or accumulated deficit.

(f) New Standards Adopted

(i) In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)". The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business (which includes an optional concentration test). The Company will choose whether or not to apply the concentration test for each transaction it makes. The amendment is effective for the Company as of January 1, 2020. The amendment did not have a material impact to the financial statements.

(ii) In October 2018, the IASB clarified its definition of "material (Amendments to IAS 1 *Presentation of Financial Statements*

and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)". The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The changes are effective for the Company as of January 1, 2020. The clarification did not have a material impact to the financial statements.

(iii) In May 2020, the International Accounting Standards Board (Board) issued an amendment to IFRS 16 *Leases* to make it easier for lessees to account for COVID-19-related rent concessions such as rent holidays and temporary rent reductions. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021. The amendment was effective as of June 1, 2020, but lessees were permitted to apply the amendment immediately. The Company applied this amendment to three leases during the three months ended June 30, 2020. The change did not have a material impact to the financial statements.

(e) Recent Accounting Pronouncements

(i) In May 2020, the IASB issued an amendment to IFRS 3 *Business Combinations* to update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The changes are effective for the Company as of January 1, 2022. The Company does not expect that the update will have a material impact to our financial statement disclosures.

(ii) In May 2020, the IASB issued an amendment to IAS 16 *Property, Plant and Equipment* to prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss. The Company is in the process of evaluating the impact to the financial statements. The changes are effective for the Company as of January 1, 2022.

(iii) In May 2020, the IASB issued an amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to specify which costs a company includes when assessing whether a contract will be loss-making. The Company is in the process of evaluating the impact to the financial statements. The changes are effective for the Company as of January 1, 2022.

(iv) In January 2020, the IASB clarifies the requirements for classifying liabilities as current or non-current (Amendments to IAS 1 Presentation of Financial Statements). The amendments clarify, not change, existing requirements, and so are not expected to affect companies' financial statements significantly. The effective date is January 2023. Early adoption is permitted. The Company does not expect that the standard will have a material impact to our financial statement disclosures.

3. Discontinued Operations

Following the completion of the merger with Interurban Capital Group, LLC (formerly Interurban Capital Group, Inc.) ("ICG") discussed in Note 10, the Company sold ICG to a wholly owned subsidiary of Hightimes Holding Corp. ("Hightimes") following the spinoff of certain assets as discussed in Note 10. At the time of disposition, ICG's primary assets consisted of rights to acquire eight "Have A Heart"-branded cannabis dispensaries in California (the "California HAH Dispensaries"). In addition, the Company agreed to sell Hightimes the equity of two additional entities controlled by Harvest that are seeking cannabis dispensary licenses in California (the "Harvest Dispensaries"). As a result, assets and liabilities allocable to these operations were classified as held for sale. In addition, revenue and expenses, gains and losses relating to the discontinuation of the California HAH Dispensaries operations were eliminated from profit or loss from the Company's continuing operations for all periods presented.

The Company also entered into a plan to abandon certain product lines or lines of business to include CBD products or items of inventory, and the Company's planned expansion in the state of Michigan. Any related assets and liabilities are classified as held for sale. In addition, the revenue, expenses, gains and losses related to the discontinuation of these activities were eliminated from profit or loss from the Company's continuing operations for all periods presented.

Discontinued operations are presented separately from continuing operations in the unaudited interim condensed consolidated statements of operations and the unaudited interim condensed consolidated statement of cash flows.

The following table represents the financial results associated with discontinued operations as reflected in the Company's unaudited interim condensed consolidated statements of operations (in thousands):

	For the three months ended September 30, 2020	For the nine months ended September 30, 2020
Revenue, net of discounts	$ —	$ 4,778
Cost of goods sold	—	(2,711)
Gross profit before biological asset adjustments	—	2,067
Realized fair value amounts included in inventory sold	—	—
Unrealized fair value gain on growth of biological assets	—	—
Gross profit	—	2,067
Expenses		
General and administrative	1	1,603
Sales and marketing	—	46
Share-based compensation	—	—
Depreciation and amortization	33	1,057
Total expenses	34	2,706
Operating income (loss)	(34)	(639)
Other (expense) income		
Other (expense) income	(93)	(93)
Interest expense	(5)	(717)
Loss before taxes and non-controlling interest	(132)	(1,449)
Income taxes	—	(147)
Loss from continuing operations before non-controlling interest	(132)	(1,596)
Net loss from discontinued operations, net of tax	131	1,420
Net loss attributed to Harvest Health & Recreation Inc.	(1)	(1)

The following table is a summary of the assets and liabilities of discontinued operations (in thousands):

	September 30, 2020	December 31, 2019
ASSETS		
Property, plant and equipment, net	1,435	1,183
Right-of-use asset, net	316	334
Intangibles assets, net	949	905
Other assets	40	22
Assets from discontinued operations	2,740	2,444
LIABILITIES		
Lease liability, net of current portion	330	-
Liabilities from discontinued operations	330	-

(Amounts expressed in thousands of United States dollars)

4. ACCOUNTS RECEIVABLE

The Company's accounts receivable consisted of:

	September 30, 2020	December 31, 2019
Trade receivables	$ 17,511	$ 11,737
Other receivables	1,012	4,005
Total accounts receivable	$ 18,523	$ 15,742
Less: provision for doubtful accounts	(1,138)	(3,595)
Accounts receivable, net	**$ 17,385**	**$ 12,147**

As of September 30, 2020 and December 31, 2019, the Company had amounts due from a customer of $10,412 and $9,480, respectively. As of September 30, 2020 and December 31, 2019, amounts due from this customer represented 59% and 81% of total trade receivables, respectively.

5. INVENTORY

The Company's inventory consisted of:

	September 30, 2020	December 31, 2019
Raw materials	$ 7,347	$ 12,007
Work in progress	19,863	4,887
Finished goods	16,142	12,999
Total inventory	43,352	29,893
Reserve	(2,335)	(1,118)
Total inventory, net	$ 41,017	$ 28,775

6. BIOLOGICAL ASSETS

The Company's biological assets consist of seeds and cannabis plants. The reconciliation of the beginning and ending balances of biological assets are as follows:

	September 30, 2020	December 31, 2019
Balance, beginning of period	$ 8,057	$ 6,788
Biological assets acquired through business combinations (Note 10)	5,817	—
Increase in biological assets due to capitalized costs	2,636	4,073
Net changes in fair value less costs to sell due to biological transformation	48,711	45,841
Transferred to inventory upon harvest	(38,706)	(48,645)
Balance, end of period	**$ 26,515**	**$ 8,057**

The Company values its biological assets at the end of each reporting period at fair value less costs to sell. This is determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated selling price per gram less processing and selling costs. This model also considers the progress in the plant life cycle.

The significant assumptions used in determining the fair value of biological assets include:

(i) market values, varying by location;

(ii) expected yield by plant;

(iii) duration of production cycle, varying by plant variety and location; and

(iv) wastage of plants, depending plant stage and type.

(Amounts expressed in thousands of United States dollars)

The Company has quantified the sensitivity of the significant assumptions in relation to the biological assets as of September 30, 2020 and December 31, 2019, respectively, and expects that:

Significant Assumptions	Range of Inputs	10% Change as of September 30, 2020	10% Change as of December 31, 2019
Market price per gram (retail and wholesale)	$2.24 to $8.39	$ 2,974	$ 975
Expected yield per plant	27.24 to 351.32 grams	2,974	975
Production cycle	84 to 133 days	580	319
Wastage of plants	0% to 59%	282	177

As of September 30, 2020 and December 31, 2019, the expected yield of the Company's biological assets is approximately 7.6 million grams and 2.9 million grams, respectively, of cannabis when harvested. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods. Other unobservable inputs such as weather, changes in market conditions affecting both production costs and selling prices, and other factors may also impact the fair value of the biological assets.

(Amounts expressed in thousands of United States dollars)

7. NOTES RECEIVABLE

Notes receivable consisted of:

	September 30, 2020	December 31, 2019
Secured promissory notes dated February 2020 in the principal amount of $13,189 with maturity dates from August 2021 to February 2022; principal is due at maturity. Interest rates of 6 - 8% per annum, due at maturity.	$ 13,189	$ —
Secured convertible promissory note, created from pending acquisition, dated December 31, 2019 in the principal amount of up to $30,000 with maturity date of December 31, 2020; principal is due at maturity. Interest rate of 9.0% per annum, due at maturity.	—	30,000
Secured promissory note, created from the Verano acquisition, dated September 4, 2019 in the principal amount of up to $16,000 with maturity date of September 4, 2020; principal is due at maturity. Interest rate of 5.0% per annum, due at maturity.	—	8,000
Secured promissory notes, created from the CannaPharmacy acquisition, dated April and June of 2019 in the principal amount of $11,625 with maturity dates in April and June of 2021; principal is due at maturity. Interest rate of 8% per annum, due quarterly.	609	11,625
Secured promissory notes, due from Devine Holdings, LLC, dated October 2018 to August 2019 in the principal amount of $10,100 with maturity date contingent upon closing of proposed transaction; principal is due at maturity. Interest rate of 12% per annum, due at maturity.	10,100	10,100
Secured convertible promissory note, due from Falcon International Corp. ("Falcon") and subsidiaries, dated June 7, 2019 in the principal amount of up to $40,354 with maturity date of June 6, 2022; principal is due at maturity. Interest rate of 4% per annum, due at maturity.(1)	25,525	25,390
Secured promissory note dated May 3, 2019 in the principal amount of $75 with maturity date of May 3, 2020; principal is due at maturity. Interest rate of 4% per annum, due at maturity.	—	75
Unsecured convertible promissory notes, due from Falcon and its subsidiaries, dated October 2018 through February 2019 in the principal amount of $24,499 with maturity dates of August to November 2019; principal is due at maturity. Interest rate of 8% per annum, due at maturity.(1)	24,499	24,499
Secured revolving notes dated December 2018 through January 2019 in the principal amount of up to $30,000 with maturity dates of December 2019 to February 2020; principal is due at maturity. Interest rates of 8.25 - 8.5% per annum with interest payments due monthly.	3,581	3,581
Unsecured promissory note, created from a pending acquisition, dated November 14, 2018, in the principal amount of $1,776 with maturity date of December 31, 2021; principal is due at maturity. Interest rate of 8% per annum with interest payments due quarterly, beginning March 31, 2019.	1,776	1,776
Other promissory notes receivable	62	—
Total notes receivable	79,341	115,046
Less: provision for impairment of notes receivable	(30,191)	(29,267)
Net amount	49,150	85,779
Less: current portion of notes receivable	(42,072)	(51,349)
Notes receivable, long-term portion	**$ 7,078**	**$ 34,430**

(1) These notes were issued by Falcon in connection with the Falcon Merger Agreement described in Note 16 (the "Falcon Notes"). In connection with the Falcon Lawsuit, described in Note 16, the Company is seeking restitutionary damages from Falcon and its shareholders including repayment of the Falcon Notes. During the year ended December 31, 2019, the Company recorded a provision for impairment of $32,500, including interest of $1,200 related to the Falcon Notes and other amounts for license purchases. Of the principal balance of the Falcon Notes, $28,900 is impaired and is noted in the table above.

Stated maturities of the notes receivable are as follows:

Year Ending December 31,	**Expected Principal Payments**
2020 (3 months)	$ 38,642
2021	8,020
2022	32,679
	$ 79,341

(Amounts expressed in thousands of United States dollars)

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of:

	September 30, 2020	December 31, 2019
Land	$ 19,747	$ 17,953
Buildings and improvements	104,050	66,228
Furniture, fixtures and equipment	14,869	16,477
Assets under construction	38,010	56,729
Total property, plant and equipment, gross	$ 176,676	$ 157,387
Less: accumulated depreciation	(17,838)	(7,520)
Property, plant and equipment, net	**$ 158,838**	**$ 149,867**

Assets under construction represent construction in progress related to both cultivation and dispensary facilities not yet completed or otherwise not placed in service.

	PP&E Cost	Accumulated Depreciation	PP&E, NBV
Balance as of December 31, 2019	$ 157,387	$ (7,520)	$ 149,867
Additions	8,977	—	8,977
Additions from acquisition of businesses	30,209	—	30,209
Deletions	(19,897)	—	(19,897)
Depreciation	—	(10,318)	(10,318)
Balance as of September 30, 2020	**$ 176,676**	**$ (17,838)**	**$ 158,838**

9. LEASES

The following table presents right of use assets for the Company:

Cost	Property	Equipment	Total
Balance at January 1, 2020*	$ 61,638	$ 68	$ 61,706
Additions	52,894	-	52,894
Derecognition of right-of-use assets	(38,914)	-	(38,914)
Balance at September 30, 2020	$ 75,618	$ 68	$ 75,686

Accumulated depreciation	Property	Equipment	Total
Balance at January 1, 2020*	$ 4,709	$ 42	$ 4,751
Depreciation expense	5,358	26	5,384
Derecognition and adjustments	(1,531)	-	(1,531)
Balance at September 30, 2020	$ 8,536	$ 68	$ 8,604

	Property	Equipment	Total
Right-of-use assets, net at January 1, 2020*	$ 56,929	$ 26	$ 56,955
Right-of-use assets, net at September 30, 2020	$ 67,082	$ -	$ 67,082

*See Note 3 for additional information pertaining to assets held for sale and discontinued operations.

The Company recorded the following for depreciation on right-of-use assets within the Interim Unaudited Condensed Consolidated Statement of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Amount included in depreciation and amortization	$ 1,600	$ 1,366	$ 4,739	$ 2,520
Amount included in cost of goods sold	$ 259	$ 182	$ 645	$ 827

(Amounts expressed in thousands of United States dollars)

The following table presents lease obligations for the Company:

	September 30, 2020	December 31, 2019
Lease liability, current portion	$ 8,294	$ 2,885
Lease liability, net of current portion	61,862	54,621
Total	$ 70,156	$ 57,506

The following table presents the contractual undiscounted cash flows for lease obligations:

	September 30, 2020
Less than one year	$ 6,792
One to five years	41,275
More than five years	79,255
Total undiscounted lease obligations	$ 127,322

The following amounts are recognized within the Interim Unaudited Condensed Consolidated Statement of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest on lease liabilities included in interest expense	$ 2,580	$ 1,366	$ 4,267	$ 2,437
Interest on lease liabilities included in cost of goods sold	$ (57)	$ -	$ 330	$ 522
Expenses related to short-term leases	$ 437	$ -	$ 1,387	$ -
Expenses related to variable payments	$ 276	$ -	$ 783	$ -
Sublease income	$ -	$ -	$ -	$ -
Expenses related to low value assets	$ -	$ -	$ -	$ -

(Amounts expressed in thousands of United States dollars)

10. ACQUISITIONS/DIVESTITURES

	Nine Months Ended September 30, 2020					
Purchase price allocation	**GreenMart**	**ICG**	**AZNS**	**Franklin Labs**	**Total**	**Adjustments**
Assets acquired:						
Cash	$ 121	$ 911	$ -	$ 92	$ 1,124	$ -
Restricted cash	-	1,050	-	-	1,050	-
Accounts receivable	82	2,222	-	11	2,315	200
Inventory	1,528	513	2,154	1,189	5,384	236
Biological assets	1,417	-	2,619	3,217	7,253	-
Other current	99	382	-	-	481	-
Property, Plant & Equipment	370	10,878	8,064	6,967	26,279	-
ROU assets	10,900	27,728	950	5,716	45,294	(11,032)
Derivative and other assets	-	6,430	74	-	6,504	539
Other assets	38	-	-	-	38	38
Intangibles	30,261	11,500	33,761	28,989	104,511	-
Goodwill	10,792	13,569	4,358	7,147	35,866	831
Assets held for sale	-	8,500	-	-	8,500	-
Liabilities assumed:					-	-
Other current liabilities	(271)	(2,813)	-	(815)	(3,899)	236
Lease liability	(10,668)	(27,728)	(950)	(5,716)	(45,062)	11,032
Notes Payable	-	(18,500)	(3,897)	-	(22,397)	(634)
Deferred tax liability	(7,997)	(5,300)	(7,090)	(8,986)	(29,373)	-
Consideration transferred	**$ 36,672**	**$ 29,342**	**$ 40,043**	**$ 37,811**	**$ 143,868**	**$ -**

Measurement period adjustments

Where provisional values are used in accounting for a business combination, they may be adjusted in subsequent periods, not to exceed twelve months.

Acquisition of GreenMart of Nevada

On December 31, 2019, the Company, through a wholly owned indirect subsidiary, entered into a definitive agreement to acquire GreenMart of Nevada, LLC ("**GreenMart**"), a wholly owned, indirect subsidiary of MJardin Group, Inc. ("**MJardin**"), to acquire 100% of the membership interests of GreenMart. GreenMart owns a State of Nevada Medical Marijuana Cultivation Establishment Certificate and a State of Nevada Marijuana Cultivation Facility License and a lease for a 32,000 sq. ft. production and cultivation facility located in Cheyenne, Nevada, a Las Vegas suburb. In addition, the Company entered into a management services agreement (an "**MSA**") with GreenMart effective August 14, 2020 whereby the Company agreed to manage all aspects of GreenMart's business including the ramp up of cannabis cultivation and production. Pursuant to the MSA, the Company are entitled to all revenues of GreenMart's operations and will fund operational expense during the period of time we manage the facility. The MSA terminates upon the closing of the purchase of GreenMart. The purchase price for the transaction is $35,000 and is being financed by one of our existing lenders. The amount of $30,000 was funded on December 31, 2019 and was included as a note receivable in the Company's consolidated balance sheet and the balance of $5,000 is due upon the closing of the acquisition which will occur upon license transfer. Upon the signing of the MSA on August 14, 2020, the note receivable plus interest the Company had recorded with Mjardin was reclassified as consideration for obtaining effective control. The completion of the acquisition is subject to, among other things, the receipt of regulatory approvals and the satisfaction or waiver of closing conditions customary for a transaction of this nature.

Sale to Hightimes

On June 22, 2020, the Company sold ICG to a wholly owned subsidiary of Hightimes following the spinoff of certain assets as provided for in the Second Restated Purchase Agreement by and among Hightimes, the Company, Steve White, Harvest of California LLC, ICG and other parties dated June 10, 2020 (the "Hightimes Agreement"). At the time of disposition, ICG's primary assets consisted of rights to acquire eight "Have A Heart"-branded cannabis dispensaries in California (the "California HAH Dispensaries"). In addition, the Company agreed to sell Hightimes the equity of two additional entities controlled by Harvest that are seeking cannabis dispensary licenses in California (the "Harvest Dispensaries"). The sales price for these assets was $67,500 payable $1,500 in cash and $66,000 in the form of Series A Voting Convertible Preferred Stock, par value $0.0001 ("Series A Preferred") issued by Hightimes. $60,000 of Series A Preferred Stock was issued on June 22, 2020 upon completion of the sale of ICG and the remaining $6,000 of Hightimes Series A Preferred Stock will be issued to Harvest upon transfer of the Harvest Dispensaries. At the time of closing, Hightimes had no other series or class of preferred stock issued and outstanding. The Series A Preferred Stock has a stated or liquidation value of $100 per share. Commencing on the later to occur of (A) September 30, 2020, or (B) the Closing Date, the Series A Preferred Stock will pay a quarterly dividend at the rate of 16% per annum. The Dividend shall accrue and shall be added to the face amount of the Series A Preferred Stock issuable upon conversion of the Series A Preferred Stock. The Company may convert all or a portion of the Series A Preferred Stock into shares of Hightimes Class A voting Common Stock at a conversion price per share of $11, subject to adjustment to $1 per share, based on the 11-for-one forward stock split of the Hightimes Common Stock to be consummated upon completion of Hightimes' Regulation A+ initial public offering; provided, that in no event shall the number of shares of Hightimes Common Stock issuable upon full conversion of the Series A Preferred Stock, exceed 19% of the issued and outstanding shares of Hightimes Common Stock, after giving effect to such optional conversion.

To the extent not previously converted into Conversion Shares, the then outstanding shares of Series A Preferred Stock shall be subject to automatic conversion into Hightimes Common Stock on the earlier to occur of (a) two (2) years from the Initial Closing Date, or (b) if the market capitalization of the Hightimes Common Stock, based on the volume weighted average closing prices for any ten (10) consecutive trading days, shall equal or exceed USD$300,000. In either event, the per share conversion price of the Series A Preferred Stock shall be the volume weighted average closing price for any ten (10) consecutive trading days immediately preceding the date of automatic conversion. Notwithstanding the foregoing, in no event shall the aggregate number of Conversion Shares exceed 19% of the issued and outstanding shares of Hightimes Common Stock, after giving effect to any prior optional conversion or a mandatory conversion.

The number of Series A Preferred Shares is subject to reduction in the event Hightimes does not obtain the required consent to transfer ownership of the California HAH Dispensaries or the Harvest Dispensaries within one year following the applicable closing and such failure is not a result of Hightimes failure to use its commercially reasonable efforts (which shall not include having to make any additional payments to any member or manager of any dispensary) to obtain such consent as provided for in the Hightimes Agreement. In addition, if the required consent is not obtained, the applicable entity shall be removed from the list of dispensaries to be acquired and there shall be no further liability or obligation on the part of any party with respect to the failure to deliver the required consents or approvals for such entity.

The Series A Preferred Stock and the Hightimes Common Stock issuable upon conversion of the preferred stock (the "Conversion Shares") are subject to a lockup agreement which prohibits the Company or any purchaser of the shares from affecting any sale, assignment, pledge or transfer of the Series A Preferred Stock or Conversion Shares for a period of six months following the applicable closing date. Thereafter, the Company may effect public sales into the market of such Conversion Shares at the rate of 10% of such Conversion Shares every six months (commencing on the six month anniversary of the Closing Date) with the balance of such Conversion Shares to be subject to public sales into the market at the expiration of such five year lockup period.

The Company estimated the fair value of the shares of Series A Preferred Stock received to be $19,100 as of June 30, 2020. For consideration received, the Company transferred its 100% ownership interest in ICG whose primary assets consisted of several leases, leasehold improvements, other assets and rights to acquire eight California HAH Dispensaries and agreed to sell Hightimes the equity of two additional Harvest Dispensaries for a gain of $2,100 which is recorded in Discontinued operations in the Company's Condensed Consolidated Statement of Operations.

Franklin Labs, LLC, a subsidiary of CannaPharmacy

On March 26, 2020, the Company acquired from CannaPharmacy, Inc., a Delaware corporation ("CannaPharmacy"), all of the issued and outstanding membership interests of Franklin Labs, LLC, a Pennsylvania limited liability company ("Franklin Labs") for $15,400 in cash, a $10,000 promissory note, $10,831 note receivable forgiveness and a $1,580 deposit. Franklin Labs holds one grower/processor cannabis permit in Pennsylvania and operates a 46,800 sq. ft. cultivation and processing facility in Reading, Pennsylvania.

Merger with Interurban Capital Group, Inc.

The Company, through its wholly owned subsidiary, completed a merger with ICG on March 13, 2020 pursuant to an Agreement and Plan of Merger and Reorganization ("the ICG Merger"). ICG is a Seattle-based multistate retail cannabis company. The merger consideration transferred was 318,652 Multiple Voting Shares (the "Merger Shares") plus the assumption of debt in the principal amount of $19,134 convertible into 205,594 Multiple Voting Shares. The fair value of the Merger Shares at the time of closing was $29,342 based on 100 times the $0.9208 closing price of the Subordinate Voting Shares on the March 13, 2020 closing date of the ICG Merger. The Merger Shares are subject to lock-up agreements pursuant to which the holders of such shares have agreed, subject to customary carve-outs and exceptions, not to sell any Merger Shares (or announce any intention to do so), or any securities issuable in exchange therefore, for a period of up to 30 months after the March 13, 2020 closing date of the ICG Merger. 10% of the Merger Shares issued at the time of the ICG Merger are free from the lockup at the time of closing with 10% free from the lockup six months after the closing and then an additional 10% each three months thereafter until the remaining balance of the Merger Shares are free from restriction.

The Company has agreed to issue a number of Multiple Voting Shares for an aggregate price of $9,299 (the "WA Interests Consideration") upon exercise of an option to acquire certain ownership interests in five entities that hold licenses to operate recreational cannabis dispensaries in the State of Washington or alternatively an aggregate price of $12,382 (the "WA Assets Consideration") to acquire substantially all of the assets of these five entities (the "Options"). Exercise of the Options by the Company is subject to fulfilment of certain conditions. The Multiple Voting Shares will be determined by (a) converting the WA Interests Consideration or the WA Assets Consideration to CAD$ based on the exchange rate of USD$:CAD$ reported by the Bank of Canada on the day prior to the closing of the acquisition of the WA Interests or the WA Assets as the case may be; and (b) dividing such amount by 100 times the volume weighted average sales price for each share of Subordinate Voting Shares of the Company on the Canadian Securities Exchange (the "CSE") during the last 15 completed trading days prior to the closing of the acquisition of the WA Interests or the WA Assets. In addition, the Company agreed to issue 1,274,608 Subordinate Voting Shares to a business consultant for a consulting fee at the time of the merger closing.

Acquisition of Arizona Natural Selections

On February 18, 2020, the Company completed the acquisition of Arizona Natural Selections, including four vertical medical licenses in Arizona. The acquisition was completed by issuing 122,672 Class B shares of a wholly owned acquisition subsidiary of the Company, which are convertible on a one-to-one basis to Multiple Voting Shares with an aggregate fair value on the date of purchase of $30,443 based on the subordinate voting share price per share converted to USD on that day, and the issuance of a $6,650 promissory note with interest at 4% issued to the former owners with a term of three years and payable in three equal installments of principal on each anniversary of the closing with accrued interest payable on the third anniversary of the closing along with the final installment of principal. The principal amount under the note will be available as a reserve to the Company for indemnification purposes. The Class B shares will automatically convert to Multiple Voting Shares on the earlier of the exchange of at least 50% of the Sellers' Class B Shares into Multiple Voting Shares or on February 18, 2022. The Company assumed $3,897 in debt at closing and paid off another $2,950 at closing. The four licenses acquired through the agreement include retail locations: Green Desert Patient Center of Peoria, Inc., Green Sky Patient Center of Scottsdale North, Inc., The Giving Tree Wellness Center of Mesa, Inc. and a fourth location to be opened, each of which currently conducts business under the retail brand name Arizona Natural Selections. The acquisition provided Harvest with two operational cultivation facilities: a 55,000 sq. ft. indoor cultivation and production facility in Phoenix and a 322-acre site of which 25 acres are zoned for cannabis with 70,000 square feet of greenhouse in Willcox, Arizona.

AINA We Would LLC

The Company entered into a venture to form AINA We Would LLC ("AINA"), a real estate investment vehicle. Harvest owns 25% interest in AINA, and its investment is accounted for using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*.

During the three and nine months ended September 30, 2020, Harvest did not provide AINA any additional short-term financing. During the three months ended September 30, 2019, Harvest provided additional short-term financing $1,565, which is included in notes receivable (see Note 7). As of September 30, 2020 and December 31, 2019, aggregate short-term financing of $3,581 has been provided to AINA.

(Amounts expressed in thousands of United States dollars)

11. INTANGIBLE ASSETS AND GOODWILL

Intangible assets, including goodwill, as of September 30, 2020 and December 31, 2019 consisted of the following:

Cost	**December 31, 2019**	**Additions**	**Acquisitions***	**Dispositions/Adjustments****	**September 30, 2020**
Definite life intangible assets:					
Technology	$ 18,058	$ —	$ —	$ —	$ 18,058
Software	183	—	—	—	183
Other	—	208	—	—	208
Indefinite life intangible assets:					
Licenses and permits	138,792	1,719	93,011	(274)	233,248
Internally developed	1,827	—	—	—	1,827
Trade names	2,400	—	—	—	2,400
Other***	—		11,500	—	11,500
Total intangible assets	161,260	1,927	104,511	(274)	267,424
Goodwill	84,596	—	36,075	—	120,671
Total Cost	**$ 245,856**	**$ 1,927**	**$ 140,586**	**$ (274)**	**$ 388,095**

Accumulated amortization	**December 31, 2019**	**Amortization**	**Acquisitions***	**Dispositions/Adjustments**	**September 30, 2020**
Definite life intangible assets:					
Technology	$ 2,021	$ 1,419	$ —	$ —	$ 3,440
Software	30	30	—	—	60
Total accumulated amortization	**2,051**	**1,449**	**-**	**-**	**3,500**
Total intangible assets, net and goodwill	**$ 243,805**	**$ 478**	**$ 140,586**	**$ (274)**	**$ 384,595**

* See Note 10 for additional information.
**See Note 3 for additional information.
***Consists of agreements that allow the Company the rights to collect certain fees.

Intangible assets with definite lives are amortized over their estimated useful lives. The Company recorded amortization expense of $488 and $660 included in depreciation and amortization for the three months ended September 30, 2020 and 2019, respectively, and $1,457 and $1,828 for the nine months ended September 30, 2020 and 2019, respectively. Amortization periods for assets with definite lives are based on management's estimates at the date of acquisition.

Based solely on the amortizable intangible assets recorded at September 30, 2020, estimated amortization expense for the remainder of fiscal 2020 through fiscal 2024 and thereafter is as follows:

	Estimated Amortization Expense
2020	482
2021	1,924
2022	1,894
2023	1,805
2024	1,778
Thereafter	6,858
Total amortization expense	$ 14,741

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives, impairment charges or other relevant factors or changes.

(Amounts expressed in thousands of United States dollars)

12. NOTES PAYABLE

Notes payable consisted of:

	September 30, 2020	December 31, 2019
Secured promissory note dated March 2020, in the principal amount of $10,000 with a maturity of March 2022. Monthly interest payments of 9% per annum. Principal balance due at maturity.[1]	10,000	—
Secured convertible promissory note dated March 2020, in the principal amount of $19,128 with a maturity of February 2021. Interest at 12% due at maturity. Principal balance due at maturity.[2]	19,128	—
Unsecured promissory note dated February 2020, in the principal amount of $6,650 with a maturity of February 2023. Monthly interest payments at 4% per annum. Annual payments of $2,217, inclusive of interest at 4%, due beginning February 2021 with remaining principal due at maturity.	6,650	—
Secured promissory notes dated January 2020, in the principal amount of $20,000 with a maturity of July 2021. Monthly interest payments at 16% per annum. Monthly principal payments of $200 due beginning September 2020 with remaining principal balance due at maturity.[3]	20,000	—
Secured promissory notes dated December 2019, in the principal amount of $93,248 with a maturity of December 2022. Semi-annual interest payments at 15% per annum. Principal balance due at maturity.[4]	93,390	93,248
Secured promissory notes dated December 2019, in the principal amount of $42,404 with a maturity of December 2022. Semi-annual interest payments at 9.25% per annum. Principal balance due at maturity.[5]	42,404	21,108
Secured convertible promissory note dated December 2019, in the principal amount of $10,000 with a maturity of December 2021. Semi-annual interest payments at 9% per annum. Principal balance due at maturity.[6]	10,000	10,000
Secured promissory notes dated October 2019, in the principal amount of $6,500 with a maturity of October 2020. Monthly interest payments at 8.95% per annum. Principal balance due at maturity.[7]	6,500	6,500
Secured promissory notes dated September and October 2019, in the principal amount of $2,620 with maturities of October 2024. Monthly interest payments at 5.5% and 8.75% per annum. Principal balance due at maturity.[8]	2,530	2,604
Secured promissory note dated June 2019, in the principal amount of $4,000 with a maturity of June 2024. Interest at LIBOR plus 2.5% per annum, payable monthly. Principal balance due based on 25-year amortization schedule with balloon payment at maturity.[9]	4,000	4,000
Unsecured convertible debentures dated May 2019, in the principal amount of $100,000 with a maturity of May 2022. Semi-annual interest payments at 7% per annum. Principal balance due at maturity.[10]	100,000	100,000
Secured promissory note dated August 2018, in the principal amount of $2,000 with a maturity of August 2023. Monthly payments of $25, inclusive of interest at 2% per annum.	1,343	1,575
Secured promissory note dated July 2018, in the principal amount of $730 with a maturity of September 2020. Monthly interest payments at 12% per annum, beginning October 1, 2018. Principal balance due at maturity.	—	730
Other unsecured promissory notes	4,173	2,154
Total notes payable	320,118	241,919
Less: unamortized debt discounts and issuance costs	(26,409)	(30,905)
Net amount	293,709	211,014
Less: current portion of notes payable	(50,110)	(8,395)
Notes payable, net of current portion	**$ 243,599**	**$ 202,619**

[1] Carrying value includes debt discount of $768
[2] Carrying value includes debt discount of $263
[3] Carrying value includes debt issuance costs of $671
[4] Carrying value includes debt issuance costs of $3,280
[5] Carrying value includes debt issuance costs of $1,651, warrants of $4,578
[6] Carrying value includes debt discount of $627
[7] Carrying value includes debt issuance costs of $10
[8] Carrying value includes debt issuance costs of $68
[9] Carrying value includes debt issuance costs of $78
[10] Carrying value includes debt issuance costs of $2,420, debt discount of $7,463, and warrants of $4,532

In March 2020, the Company assumed outstanding convertible debt in the principal amount of $19,128 in connection with the ICG Merger. The debt accrues interest at a rate of 12% per annum with a maturity date of February 19, 2021. The aggregate of the principal and accrued interest is convertible into 205,594 Multiple Voting Shares by the lender or the borrower any time up to 5:00 PM Eastern time on the day before the maturity date. The principal and accrued interest will be due in cash at the maturity date if not converted prior to maturity.

In addition, in March of 2020, the Company issued a promissory note in the principal amount of $10,000 in connection with the Franklin Labs acquisition. The note is payable to CannaPharmacy Inc, and accrues interest at 9% per annum, payable in monthly interest only payments. The note matures on the second anniversary of the issuance, which will be March 26, 2022.

On January 24, 2020, the Company closed a third tranche of its Debt Offering, resulting in the issuance of $140 of 15% Coupon Notes and $11,197 of 9.25% Units. On February 13, 2020, the Company closed a fourth tranche of its Debt Offering, resulting in the issuance of $10,000 of 9.25% Units.

On January 31, 2020, the Company closed on a $20,000 term loan secured by real property owned by certain of the Company's wholly owned indirect subsidiaries. The term loan bears interest at a fixed rate of 16% per annum. Accrued and unpaid interest is payable monthly, with monthly principal amortization payments in the amount of $200 payable commencing on October 1, 2020. The term loan has an initial term of 18 months, which may be extended by the Company for two additional six-month increments upon the satisfaction of certain terms and conditions.

On December 23, 2019, the Company closed the first tranche of a private placement offering (the "Debt Offering") of (a) 15% senior secured notes due 2022 (the "Coupon Notes"), and (b) units (the "Units"), with each Unit being comprised of (i) US$1,000 aggregate principal amount of 9.25% senior secured notes (the "Unit Notes" and together with the Coupon Notes, the "Notes") and (ii) 109 subordinate voting share purchase warrants (the "Warrants"). The first tranche resulted in the private placement of approximately $73,000 in Coupon Notes, and $21,000 in Units. The funds from the initial tranche were used to pay off the Company's Bridge Facility and Primary Facility balance of $83,000, resulting in a loss on extinguishment of $2,400.

The Coupon Notes bear interest at 15% per annum and are payable semi-annually in equal installments on June 30 and December 30 of each year commencing on June 30, 2020. The Unit Notes bear interest at 9.25% per annum and are payable semi-annually in equal installments on June 30 and December 30 of each year, commencing on June 30, 2020. None of the Coupon Notes, the Units nor the subordinate voting shares that will issuable upon exercise of the Warrants will not be registered under the United States Securities Act of 1933, or applicable state securities laws and will not be qualified by a prospectus in Canada. The Coupon Notes and the Units were issued to accredited investors or qualified institutional buyers. The Notes are secured by (i) a first priority security interest in all of the Company's present and future personal property assets, (ii) a first priority security interest in the equity interests of certain of the Company's direct and indirect subsidiaries that guaranteed the Notes (the "Guarantors"), and (iii) a first priority security interest in all of the Guarantor's present and future personal property assets. The Company may redeem the Notes, in whole or in part, during the first year after the issuance of the Notes, at 105% of the principal amount of the Notes redeemed, and thereafter at 100% of the principal amount of the Notes redeemed. In the event of a change of control, each holder of Notes has the right to require the Company to purchase all or any part of their Notes for an amount in cash equal to 101% of the aggregate principal amount of Notes and Units repurchased plus and accrued and unpaid interest. The Notes include covenants that, among other things, limit the Company's ability to pay dividends, conduct certain asset or equity transactions, incur indebtedness, grant liens and dispose of material assets. The Warrants are issued and governed pursuant to the warrant indenture and can be exercised at a price of CAD $3.66 per warrant share. The issuance of the 9.25% notes with the attached Warrants resulted in the incurrence of a debt discount of $3,108, which is recorded to permanent equity and will be amortized over the term of the Units.

In December 2019, the Company issued a 9% Convertible Promissory Note for a principal amount of $10,000. The interest is payable semi-annually in arrears on June 30 and December 31 each year. The holder has the right at any time to convert the principal amount into the number of shares that is equal to the principal amount divided by the conversion price CAD $3.6692. The Company has the right to convert the principal amount at the conversion price if for any twenty consecutive trading days the volume weighted average trading price (the "VWAP") of the Company's shares is greater than a 40% premium to such conversion price.

In addition, the Company issued additional Coupon Notes under the Debt Offering in the amount of $20,000 on December 31, 2019. Together with the $10,000 Convertible Promissory Note, the Company used the $30,000 proceeds to pay a signing payment (the "Signing Payment") that will be applied towards a portion of the $35,000 purchase price of its planned acquisition of GreenMart, a wholly owned, indirect subsidiary of MJardin Group, Inc. ("MJardin"). GreenMart, MJardin and certain of its subsidiaries issued the Company a convertible promissory note in the principal amount of $30,000 to secure the Signing Payment pending closing upon regulatory approval. See Note 7 for further details regarding the $30,000 note receivable and Note 10 regarding the proposed acquisition of GreenMart.

In October and November 2019, the Company expanded the existing non-revolving term loan under its Amended and Restated Credit Agreement, with additional draws of $20,700 (CAD $27,500) and $26,600 (CAD $35,000) through amendments to the Company's existing amended and restated credit agreement originally executed on July 26, 2019 (as amended by a joinder and amending agreement dated August 26, 2019 and first amending agreement dated October 21, 2019) (the "Bridge Facility"). These draws noted above were in addition to the Company's existing CAD $50,000 facility (the "Primary Facility") for which the original principal was borrowed in October 2018 under the Letter Credit Agreement and amended and restated in July 2019. The entire Amended and Restatement Credit Agreement balance of $82,500 was paid off with the Senior Secured Notes and Units described above.

The Company was party to Letter Credit Agreement entered in October 2018 to borrow $19,822 (CAD $26,000) for a period of three years at an interest rate that is equal to Bank of Nova Scotia Prime plus 10.3% per annum. Principal payments under the loan were amortized monthly on a straight-line basis over the term of the loan beginning six months after the date of the loan. The loan was secured by a first lien on the assets of the Company and its subsidiaries and a pledge of its ownership in its subsidiaries. The Company paid the agent of the lender a $579 (CAD $760) work fee and issued to such agent $940 (CAD $1,233) of shares of common stock of Subordinate Voting Shares of the resulting issuer. This loan agreement was Amended and Restated in July 2019 as noted above and settled with the Senior Secured Notes described above.

In May 2019, the Company received gross proceeds of $100,000 from a brokered private placement issuance of 7% coupon, unsecured debentures, which are convertible into SVS at a conversion price of $11.42 (CAD $15.38) per share at any time and mature on May 9, 2022. The purchaser of the Convertible Debentures also received, for no additional consideration, 3,502,666 warrants. Each warrant is exercisable to purchase one SVS at an exercise price of $13.49 (CAD $18.17) per share, for a period of 36 months from the date of issue. The proceeds were to fund working capital and general corporate purposes.

The Company may, subject to certain conditions, force the conversion of all of the principal amount of the then outstanding Convertible Debentures at the applicable Conversion Price if, at any time after the date that is four months and one day following the date of issue of the Convertible Debentures, the daily volume weighted average trading price (the "VWAP") of the SVS is greater than $15.99 (CAD $21.53) for any 10 consecutive trading days, by providing 30 days' notice of such conversion.

The May 2019 Convertible Debentures are comprised of a liability component and a conversion feature. As the debentures are convertible into SVS, the liability and equity components are presented separately. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at the market rate of interest of 16.5%. The warrants were fair valued using the Black-Scholes option-pricing model and classified in equity for $8,461. Using the residual method, the carrying amount of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability, less the fair value of warrants. The resulting residual value of the discount was $13,039 upon issuance and will be classified in equity. The debentures, net of the equity component and issue costs, are accreted using the effective interest method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity. The Company incurred cash fees of $4,232, which were netted with proceeds. These transaction costs have been allocated to the liability and equity components based on their pro-rata values.

(Amounts expressed in thousands of United States dollars)

Stated maturities of debt obligations are as follows:

Year ending December 31,		Expected Principal Payments
2020 (3 months)	$	8,468
2021		52,939
2022		247,705
2023		4,900
2024		5,597
2025 and thereafter		509
	$	320,118

13. SHARE-BASED COMPENSATION

Stock Options

During 2018, the Compensation Committee of the Board of Directors approved a share-based compensation plan. The purpose of the Plan is to promote the interests of the Company and its stockholders by aiding the Company in attracting and retaining employees, officers, consultants, advisors and non-employee directors capable of assuring the future success of the Company. The stock options granted are non-qualified and vest in 25% increments over a four-year period and expire 10 years from the grant date.

A summary of the status of the options outstanding follows:

	Number of Stock Options		Weighted-Average Exercise Price
Balance as of December 31, 2019	17,536,250	$	7.02
Forfeited/Cancelled	(10,195,438)	$	6.56
Granted	6,195,375	$	3.07
Balance as of September 30, 2020	**13,536,188**	**$**	**5.56**

The following table summarizes the Subordinate Voting Shares stock options that remain outstanding as of September 30, 2020:

Security Issuable	Expiration Date	Number of Stock Options	Exercise Price	Stock Options Exercisable
Subordinate Voting Shares	November 14, 2028 - July 14, 2030	13,536,188	1.09 - 8.75	2,444,250

The following table summarizes the Subordinate Voting Shares stock options that remain outstanding as of December 31, 2019:

Security Issuable	Expiration Date	Number of Stock Options	Exercise Price	Stock Options Exercisable
Subordinate Voting Shares	November 14, 2028 - December 19, 2029	17,536,250	2.12 - 8.75	1,758,125

During the three months ended September 30, 2020 and 2019, the Company recorded $1,268 and $7,718 of share-based compensation expense for stock options granted and vested during the period, respectively. During the nine months ended September 30, 2020 and 2019, the Company recorded $18,348 and $19,115, respectively.

The fair value of the stock options granted was determined using the Black-Scholes option-pricing model with the following assumptions at the time of grant:

	2020	2019
Risk-Free Annual Interest Rate	2.00% - 2.25%	2.00% - 2.25%
Expected Annual Dividend Yield	0%	0%
Expected Stock Price Volatility	83%	85% - 95%
Expected Life of Stock Options	6.25 Years	6.25 Years

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies. The expected life in years represents the period of time that options issued are expected to be outstanding.

(Amounts expressed in thousands of United States dollars)

The risk-free rate is based on Government of Canada bond issues with a remaining term approximately equal to the expected life of the options.

During the three months ended September 30, 2020, the weighted-average fair value of stock options granted was $1.09. During the nine months ended September 30, 2020, the weighted-average fair value of stock options granted was $2.66 per option. During the three and nine months ended September 30, 2019, the weighted-average fair value of stock options granted was $4.18 and $7.66 per option, respectively. As of September 30, 2020 and December 31, 2019, stock options outstanding have a weighted-average remaining contractual life of 8.4 and 9.1 years.

On February 4, 2020, the Company announced that former Co-Executive Chairman Jason Vedadi, CEO Steve White, and another member of the Company's management team, voluntarily surrendered without consideration a total of 2,400 stock options which increased the number of stock options available to other eligible employees of the Company. Following the surrender, key personnel of the Company were awarded approximately 3,000 equity options in recognition of their work and incentive for continued dedication to the Company. Certain stock options were re-granted based on original grant date, allowing for 25% of options to be vested immediately upon grant. As part of the redistribution of equity options, Harvest recognized a non-cash charge of approximately $10,200 during the first quarter of 2020. The non-cash charge is an accounting treatment that relates to the surrender of equity options and associated acceleration of unrecognized expense tied to the original option grants.

Restricted Stock Units

On September 29, 2020 and August 3, 2020, the Company granted 193,884 and 312,227 restricted stock units, respectively. These restricted stock units vest in 2020. On April 6, 2020, the Company granted 98,765 restricted stock units. These restricted stock units vest throughout the 2020 and 2021 calendar year. On May 2, 2019, the Company granted 60,329 restricted stock units. These restricted stock units vested throughout the 2019 calendar year. The following table summarizes the status of the restricted stock units:

	Number of Restricted Stock Units		Weighted-Average Grant Price
Balance as of December 31, 2019	—	$	—
Granted	604,926	$	1.08
Vested	(41,150)	$	0.81
Balance as of September 30, 2020	**563,776**	**$**	**1.10**

During the three and nine months ended September 30, 2020, the Company recorded $165 and $178 of share-based compensation expense, respectively, for restricted stock units granted and vested during the period. During the three and nine months ended September 30, 2019, the Company recorded $125 and $375 of share-based compensation expense for restricted stock units granted and vested during the period.

14. GENERAL AND ADMINISTRATIVE

General and administrative expenses were comprised of:

	For the three months ended September 30,				For the nine months ended September 30,			
		2020		2019		2020		2019
Salaries and benefits	$	10,474	$	13,955	$	36,903	$	32,278
Rent and occupancy		2,377		2,176		7,082		4,335
Professional fees		3,917		10,900		11,975		24,960
Licensing and administration		3,346		2,220		8,286		5,097
Travel and entertainment		(162)		1,276		656		3,060
Other		784		471		969		1,418
Total general and administrative expenses	**$**	**20,736**	**$**	**30,998**	**$**	**65,871**	**$**	**71,148**

(Amounts expressed in thousands of United States dollars)

15. STOCKHOLDERS' EQUITY

Description of the Company's Securities

The Company is authorized to issue an unlimited number of Subordinate Voting Shares ("SVS" or "Subordinate Voting Shares"), Multiple Voting Shares ("MVS" or "Multiple Voting Shares") and Super Voting Shares. Each Multiple Voting Share converts into 100 Subordinate Voting Shares and each Super Voting Share converts into one Subordinate Voting Share.

Warrants

During the nine months ended September 30, 2020, the Company issued to the buyers of Unit Notes, 2,310,473 warrants to purchase the Company's SVS (the "stock warrants," described in Note 12). The Company issued 55,350 warrants during the three months ended September 30, 2020 to purchase Multiple Voting Shares and issued no warrants to purchase Subordinate Voting Shares during the three months ended September 30, 2020. During the three and nine months ended September 30, 2019, the Company issued to the buyer of the May 2019 Convertible Debenture 3,502,666 warrants to purchase the Subordinate Voting Shares (the "stock warrants," described in Note 12). The stock warrants qualify for equity classification in accordance with IAS 32.28 *Compound financial instruments*.

A summary of the status of the stock warrants outstanding follows:

	Number of Stock Warrants	Weighted-Average Exercise Price
Balance as of December 31, 2019	6,840,523	$ 8.58
Issued	7,845,473	$ 1.48
Exercised	—	$ —
Balance as of September 30, 2020	**14,685,996**	**$ 4.79**

The following table summarizes the stock warrants that remain outstanding as of September 30, 2020:

Security Issuable	Expiration Date	Number of Stock Warrants	Exercise Price	Stock Warrants Exercisable
Subordinate Voting Shares	November 2020 - February 2023	9,150,996	$0.94 to $13.50	9,150,996
Multiple Voting Shares	April 23, 2021	5,535,000	$ 0.94	5,535,000

During the nine months ended September 30, 2020, the Company issued 7,845,473 stock warrants and did not record any share-based compensation expense for stock warrants issued. During the nine months ended September 30, 2019, the Company issued 3,502,666 stock warrants and did not record any share-based compensation expense for stock warrants issued as the stock warrants qualify for equity classification in accordance with IAS 32.28 *Compound financial instruments*.

The fair value of the stock warrants granted was determined using the Black-Scholes option-pricing model with the following assumptions at the time of grant:

	2020	2019
Risk-Free Annual Interest Rate	2.15%	2.15%
Expected Annual Dividend Yield	0%	0%
Expected Stock Price Volatility	70%	70%
Expected Life of Stock Options	3 Years	3 Years

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies. The expected life in years represents the period of time that stock warrants issued are expected to be outstanding. The risk-free rate is based on Government of Canada bond issues with a remaining term approximately equal to the expected life of the warrants.

During the nine months ended September 30, 2020, the fair value of the stock warrants granted was $0.45 per warrant. During the nine months ended September 30, 2019, the fair value of the stock warrants granted was $2.42 per warrant. As of September 30, 2020 and December 31, 2019, stock warrants outstanding have a weighted-average remaining contractual life of 1.7 and 2.4 years.

Shares Issued

On March 13, 2020, the Company completed an offering (the "Offering") on a non-brokered private placement basis to a select group of investors, of $59,000 of the Company's multiple voting shares at a price of $141 per share (or $1.41 per subordinate voting share on an as-converted basis) resulting in the issuance of 418,439 multiple voting shares. Proceeds of the Offering will be used for capital expenditures, pending acquisitions, and general corporate purposes.

Shares Held in Escrow

As of September 30, 2020, the Company has 2,000,000 SVS held in escrow to be released on the achievement of certain milestones. The conditions for release were not met as of September 30, 2020. The shares are non-employee compensation for raising equity.

The following presents the total outstanding SVS if converted as of September 30, 2020:

Share Class	Number of Shares at September 30, 2020	Conversion Factor	Total Subordinated Voting Shares if Converted
Super Voting Shares	2,000,000	1	2,000,000
Multiple Voting Shares	2,327,663	100	232,766,323
Subordinate Voting Shares	132,189,472	1	132,189,472
Total			366,955,795

16. NET LOSS PER SHARE

Calculation of net loss per common share attributable to Harvest Health & Recreation Inc. is as follows (in thousands, except per share data):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Net loss attributable to Harvest Health & Recreation Inc.	$ (2,141)	$ (39,095)	$ (40,416)	$ (84,637)
Net loss attributable to discontinued operations, net of tax	$ (131)	$ —	$ (1,420)	$ —
Net loss attributable to non-controlling interest	$ (370)	$ 415	$ (2,211)	$ 1,383
Basic weighted-average number of shares outstanding	367,340,268	288,137,942	345,366,810	285,853,929
Net loss per share attributable to Harvest Health & Recreation Inc. - basic and diluted	**$ (0.01)**	**$ (0.14)**	**$ (0.12)**	**$ (0.30)**
Net loss per share attributable to discontinued operations, net of tax	**$ —**	**$ —**	**$ —**	**$ —**
Net loss per share attributable to non-controlling interest	**$ (0.00)**	**$ 0.00**	**$ (0.01)**	**$ 0.00**

As the Company is in a loss position for the three and nine months ended September 30, 2020 and 2019, the inclusion of shares issuable upon exercise of stock options and warrants and upon conversion of debt in the calculation of diluted earnings per share would be anti-dilutive, and, accordingly, were excluded from the diluted loss per share calculation. The weighted-average number of shares outstanding assumes the conversion of all MVS and Super Voting Shares.

The following table summarizes the potential SVS that were excluded as they were anti-dilutive.

	As of September 30,	
	2020	2019
Stock options	16,011,125	21,645,500
Warrants	14,685,996	1,297,756
Convertible debt	32,041,357	-
	62,738,478	22,943,256

17. COMMITMENTS AND CONTINGENCIES

Regulatory Environment

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits or licenses that could result in the Company ceasing operations.

While management of the Company believes that the Company is in compliance with applicable local and state regulation as of September 30, 2020, marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Claims & Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At September 30, 2020, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's consolidated operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

Washington Litigation

Harvest Health acquired ICG via a merger agreement on March 10, 2020. On April 3, 2020, the Company filed a Notice of Intention to Arbitrate before the Judicial Dispute Resolution, LLC in Seattle, Washington against Boyden Investment Group, LLC; Tierra Real Estate Group, LLC; Have A Heart Compassion Care, Inc.; Phat Sacks Corp.; Green Outfitters, LLC (collectively, the "Washington Entities") and Ryan Kunkel ("Kunkel", together with the Washington Entities, the "Respondents") to compel mandatory arbitration for breach of contract, engaging in unfair or deceptive acts or practices in the conduct of the Respondents trade or commerce and affects the public interest, tortious interference with contractual relationships, and awards of damages, treble damages, and fees and costs (the "Arbitration"). Ryan Kunkel ("Kunkel") is a former officer, director and shareholder of ICG and manager and equity holder in the Washington Entities. The Arbitration relates to Amended and Restated Services Agreements entered into between ICG and the Washington Entities pursuant to which they agreed to pay ICG fees for services it provides to them (the "Service Agreements"). On April 2, 2020, the Respondents filed a motion for temporary restraining order in the Superior Court for the State of Washington, in and for the County of King, seeking access to certain records and accounts related to the operation of the Washington Entities' business (the "TRO Action"). On April 7, 2020, the court denied the motion in the TRO Action and found, among other things, that the Retailers failed to show (i) they were likely to prevail on their claim that ICG breached the Service Agreements, (ii) a clear legal or equitable right to the relief sought, (iii) an invasion of their rights, and (iv) they would suffer an actual and substantial injury (the "TRO Order"). On April 8, 2020, the Respondents filed a motion for dismissal of the TRO Action and the case has been dismissed. In a separate lawsuit, ICG filed a petition for provisional remedies in aid of arbitration against each of the Washington Entities seeking prejudgment writs of attachment as a result of the Respondents' conduct related to the termination of the Service Agreements (the "Provisional Remedies Action"). The Receiver Action and the Provisional Remedies Action have since been consolidated before the superior court. On June 3, 2020 the arbitrator granted ICG's motion to voluntarily dismiss Mr. Kunkel from the Arbitration. On June 12, 2020, the arbitrator denied ICG's motions to appoint a Custodial Receiver and for prejudgment writs of attachment and the Washington Retailer's motion to turn over records and accounts and to prohibit ICG from interfering in the Washington Entities' Operations or Accessing Records and Accounts (collectively, the "June 12 Orders"). On April 17, 2020, the Washington Entities filed a Motion for Summary Judgment alleging that the Service Agreements were improperly assigned after the Washington Entities terminated them. On October 20, 2020 the Washington Entities filed a Motion to Continue Evidentiary Hearing Date. On November 2, 2020, the arbitrator entered an order continuing the evidentiary hearing to February 1, 2021.

On May 28, 2020, ICG filed a complaint in the King County Superior Court against the Respondents and other members of the Washington Entities and their wives alleging a breach of the Washington Entities Options by Kunkel, Charles Boyden, Todd Shirley, Joshua Iszley and James Duvall (collectively, the "Washington Entities Sellers") who are the selling parties to the Washington Entities Options (the "Washington Options Litigation"). The complaint filed in the Washington Options Litigation alleges breach of contract, engaging in unfair or deceptive acts or practices in the conduct of the Washington Entities Sellers and the Washington Entities trade or commerce and affects the public interest, civil conspiracy, tortious interference with contractual relationships, fraud and awards of damages, treble damages, and fees and costs. The Washington Entities Sellers filed a Motion for Partial Summary Judgment and to Stay Case Pending the Outcome at Arbitration (the "Summary Judgment/Stay Motion"). The court dismissed the complaint against the Washington Entities with prejudice and stayed the action against the Washington Entities Sellers pending the outcome of the Arbitration.

Devine Holdings, Inc.

On March 25, 2020, the Company filed a complaint in the Superior Court of the State of Arizona, in and for the County of Maricopa (Case No. CV2020-003986) against Devine Holdings, Inc. and certain of its affiliates and related parties (the "Devine Parties") to compel mandatory arbitration for breach of contract and breach of the implied covenant of good faith and fair dealing claims, and the remedies of appointment of a receiver, specific performance, disgorgement and awards of attorney's fees, forum fees and costs (the "Devine Lawsuit"). The Devine Lawsuit relates to a binding agreement entered into among the Company and the Devine Parties on February 12, 2019, as supplemented by August 15, 2019 Closing Agreement documentation, pursuant to which Devine Hunter, Inc. agreed to sell to Harvest six cannabis license-holding entities in Arizona. On September 8, 2020, the Devine Parties filed a counterclaim against the

Company seeking specific performance of a merger agreement and closing agreement they claim existed among the Devine Parties and the Company. Refer to Note 18 for additional information.

Falcon International, Inc

On January 6, 2020, the Company terminated the Agreement and Plan of Merger and Reorganization entered into among the Company, Harvest California Acquisition Corp., Falcon International Corp. and its shareholders dated February 14, 2019, as amended (the “Falcon Merger Agreement”). The Falcon Merger Agreement was terminated as a result of defaults by Falcon and its shareholders incapable of being cured, and other improper conduct of Falcon and its principal officers and directors, James Kunevicius and Edlin Kim. On January 6, 2020, the Company also filed suit in the U.S. District Court for the District of Arizona (Case No. 2:20-cv-00035-DLR) (the “Falcon Lawsuit”), which identified the grounds for termination and sought a court order compelling Falcon and its shareholders to arbitrate the Company’s claims. On February 7, 2020, an Amended Complaint was filed as a matter of course, providing greater specificity after certain defendants filed a motion to dismiss. On February 26, 2020, Falcon, its subsidiaries, and its founders all stipulated to the relief sought by the Amended Complaint, to refer the matter to binding, private arbitration before the American Arbitration Association (“AAA”).

On March 6, 2020, the Court ordered the parties to the stipulation to binding, private arbitration of the matter before the AAA. The remedies the Company seeks in the AAA arbitration include rescission and/or termination of the Falcon Merger Agreement, all agreements entered into in connection with the Falcon Merger Agreement and the Control Person Transaction discussed below, an award of restitutionary 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 Falcon Merger Agreement, appointment of a receiver for Falcon and an award of attorneys’ fees, arbitration forum fees and costs. Remedies sought by the Company in arbitration also include rescission and/or termination remedies concerning the Control Person Transaction referenced in that certain 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 “Company”) dated June 7, 2019 (the “MIPA”). Pursuant to the terms of the MIPA, the Company 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 (the “Purchase Price”). These remedies include seeking an order which would effectively require the equivalent of the Selling Owners and the Sellers being required to repurchase from the Company all of the Purchased Interests for an amount equal to the Purchase Price as provided for in the MIPA (referred to in the MIPA as the “Purchaser Put Option”).

On July 2, 2020, Falcon and two of its shareholders filed a counterclaim against the Company in the AAA arbitration proceeding. The counterclaim alleges that the Company breached the Falcon Merger Agreement, breached an implied covenant of good faith and fair dealing and intentionally interfered with Falcon’s prospective business relations and seeks monetary damages of $50 million pursuant to the Falcon Merger Agreement. At this time, management has determined that a loss is not probable, and, accordingly, the Company has not accrued legal reserves with respect to this matter.

AGRiMED Industries of PA, LLC

The Company is appealing the Commonwealth of Pennsylvania Department of Health ("PDOH"), July 2019 denial of the renewal of a grower/processor permit issued to AGRiMED Industries of PA, LLC (“AGRiMED”) which the Company acquired on May 20, 2019. The PDOH denied renewal because of actions by prior management of AGRiMED that had occurred prior to the Company’s acquisition of AGRiMED. On August 28, 2019 AGRiMED filed a Notice of Appeal with the PDOH Docket No. 19-068 GP on the grounds that, among other things, the PDOH is equitably estopped and abused its discretion in refusing to renew AGRiMED's permit, given AGRiMED's change in ownership and the PDOH's awareness of that change and the limited scope of AGRiMED's operations at the time of the non-renewal, of which the PDOH was similarly aware and failed to provide AGRiMED with an opportunity to respond to or otherwise cure or correct any alleged violations identified by the PDOH. Although the Company is appealing the PDOH’s denial of the renewal of the grower/processor permit, it cannot predict its outcome. Furthermore, resolution of this matter is subject to inherent uncertainties, and an unfavorable result could occur. An unfavorable result could include the permanent loss of AGRiMED’s grower/processor permit in Pennsylvania. If an unfavorable result were to occur, such a result is not reasonably expected to have a material effect on the results of the Company’s consolidated operations.

On July 16, 2020, the Company filed a complaint in the Court of Common Pleas of Montgomery County, Pennsylvania (Docket No.: 2020-11807 against Agrimed Investors, LLC (“**Agrimed Investors**”), the former owner of AGRiMED (the “**AGRiMED Complaint**”). The AGRiMED Complaint seeks a declaratory judgment against Agrimed Investors declaring that the Company is entitled to indemnification for losses stemming from the PDOH’s denial of the renewal of AGRiMED’s grower/processor permit. The Company has voluntarily agreed to stay this case pending developments in its appeal of the PDOH renewal permit denial discussed above.

Rainbow Lease and Real Estate Litigation

On June 4, 2020, Rainbow HAH Council Bluffs LLC, Rainbow HAH Santa Cruz LLC, Rainbow HAH Coalinga LLC and Rainbow Realty Group LLC (collectively, the "**Plaintiffs**") filed a complaint in the Supreme Court of the State of New York, County of Nassau (Index No.: 605323/2020) against the Company and one of its subsidiaries and certain of its current officers and directors, including Scott Atkison (the "**Harvest Defendants**"), Interurban Capital Group, Inc. ("**ICG**") and certain of its subsidiaries, Hightimes Holding Corp. and one of its subsidiaries, Ryan Kunkel ("**Kunkel**") and James Dennedy ("**Dennedy**"). Mr. Atkison is a former shareholder and director of ICG and is a party to the ICG Merger Agreement and as result thereof, he, along with other former ICG shareholders including Daniel Reiner, a shareholder of the Company the beneficial owner of greater than 5% of our equity securities, may have indemnification obligations to the Company. On September 24, 2020, the Plaintiffs filed an amended complaint (the "**Amended Rainbow Complaint**"). The Amended Rainbow Complaint alleges, among other things, that the Plaintiffs were fraudulently induced by Kunkel and Dennedy and aided and abetted by the Harvest Defendants into paying $3.5 million to purchase three cannabis dispensaries that were leased by Have a Heart branded dispensaries in Council Bluffs, Iowa, Coalinga, California and Santa Cruz, California (the "**Gerra Properties**"). The properties were sold to the Plaintiffs by Gerra Capital Management which was owned and controlled by certain former ICG directors and shareholders which included Kunkel and Dennedy. The Amended Rainbow Complaint alleges breach of lease, breach of guaranty, breach of the implied covenant of good faith and fair dealing, fraud in the inducement, conspiracy to commit fraud, aiding and abetting fraud, violations of debtor creditor law and piercing the corporate veil (the "**Rainbow Litigation**").

The Rainbow Litigation is in the pleading stage of litigation, and the Harvest Defendants have filed a motion to dismiss the original complaint on jurisdictional and other grounds and no discovery has commenced. The Harvest Defendants intend to vigorously defend themselves and believe that the allegations against them lack merit. The Company is evaluating potential claims against Kunkel, Dennedy and the other owners of Gerra Properties, some of whom are former ICG directors and shareholders.

Litigation Assessment

The Company has evaluated its claims and the foregoing matters to assess the likelihood of any unfavorable outcome and to estimate, if possible, the amount of potential loss as it relates to the litigation discussed above. Based on this assessment and estimate, which includes an understanding of the Company's intention to vigorously prosecute its claims, the Company believes that any defenses of any of the counterparties lack merit, and the likelihood of any recoveries by any of the counterparties against the Company appears remote. This assessment and estimate is based on the information available to management as of the date of these financial statements and involves a significant amount of management judgment, including the inherent difficulty associated with assessing litigation matters in their early stages. As a result, the actual outcome or loss may differ materially from those envisioned by the current assessment and estimate. Our failure to successfully prosecute or settle these claims could have a material adverse effect on our financial condition, revenue and profitability and could cause the market value of our subordinate voting shares to decline.

In July 2018, the Company settled a suit for a total settlement amount of $400, to be paid in equal monthly installments over 38 months. The full amount of the settlement was accrued as a liability, and a corresponding reserve was taken in equity, in 2018 as the payments constituted a buy-back of the claimant's interest in the Company.

18. Subsequent Events

Devine Holdings, Inc. Litigation

On October 30, 2020, the Company settled the Devine Lawsuit whereby the Company acquired from Devine Holdings three vertical medical cannabis licenses in Arizona and a right of first refusal to acquire four additional vertical medical cannabis licenses in Arizona. The purchase price for the acquisition was for consideration which includes the repayment by Devine Holdings of an outstanding $10,450 receivable owed to Harvest concurrently with the license acquisition.

Completion of THChocolate, LLC Transaction

On October 30, 2020, Harvest completed the purchase of substantially all of the assets of THChocolate, LLC, including the transfer of its cannabis manufacturing licenses in Colorado. The purchase price for the acquisition was the repayment of an outstanding $10,858 accounts receivable and $1,950 license receivable owed to Harvest.

Completion of Bought Offering

On October 28, 2020, the Company completed a bought deal offering in Canada, pursuant to which an aggregate of 20,354,080 units (the "**2020 Units**") was sold at a price of C$2.26 ($1.72 USD) per 2020 Unit (the "**Issue Price**") for aggregate gross proceeds to us of USD $35.0 million (the "**Offering**"). The Offering included the underwriter's exercise of an Over-Allotment Option to purchase

2,654,880 2020 Units for market stabilization purposes and to cover over-allotments. Each 2020 Unit consists of one Subordinate Voting Share (each, a "**Unit Share**") and one-half of one common share purchase warrant (each whole common share purchase warrant, a "**2020 Warrant**"). Each 2020 Warrant shall be exercisable into one Subordinate Voting Share at an exercise price of C$3.05 per share for a period of 30 months from the closing date (the "**Warrant Shares**" or together with the Unit Shares, "**Shares**"). If the daily volume weighted average trading price of the Subordinate Voting Shares as quoted on the Canadian Securities Exchange (the "**CSE**") for any 10 consecutive days equals or exceeds C$4.97, the Company may, upon providing written notice to the holders of the 2020 Warrants, accelerate the expiry date of the 2020 Warrants to the date that is 30 days following the date of such written notice.

Washington Litigation Update

On November 9, 2020, the Washington Entities and certain of its owners (collectively, the "Washington Entity Owners") and a wholly owned, indirect subsidiary of the Company entered into a binding Settlement Agreement (the "Washington Settlement Agreement"). Pursuant to the terms of the Settlement Agreement, the parties agreed to, among other things, settle the Arbitration and the Washington Options Litigation by agreeing to terminate the Service Agreements and the Company's options to acquire the Washington Entities in return for the cancellation of 42,378.4 Multiple Voting Shares (4,237,840 Subordinate Voting Shares on an as-converted basis) issued to the Washington Entity Owners in connection with the ICG Merger and the issuance of a $12,000 principal amount secured promissory note by the Washington Entities in favor of the Company. The promissory note bears interest at the rate of 7.5% per annum with principal and interest payable monthly until maturity five years after the date of issuance. The Washington Settlement Agreement is subject to the parties entering into definitive agreements consistent with the terms set forth in the Washington Settlement Agreement and state regulatory approval, if required.

Divestiture of Arkansas Assets

On November 13, 2020, the Company and other owners of Natural State Wellness Dispensary, LLC and Natural State Wellness Enterprises, LLC (collectively, "Natural State Wellness Entities"), which own and operate a medical dispensary and cultivation facility, sold 100% of their ownership interests in these entities to an unrelated third party. The purchase price paid by the buyer was $25,000 in cash. Following repayment of approximately $1,900 in loans owed by Harvest, the portion of net proceeds received by the Company for its ownership interests in the Natural State Wellness Entities totaled approximately $12,900. The Company retained ownership of the real estate where the dispensary and cultivation facilities are located and leased this property to the Natural State Wellness Entities.