UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

[Check one]

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2022** Commission File Number **000-56261**

Glass House Brands Inc.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English (if applicable))

British Columbia, Canada	**2833**	**87-4028335**
(Province or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number (if applicable))	(I.R.S. Employer Identification Number (if applicable))

3645 Long Beach Blvd.
Long Beach, California 90807
212-299-7670
(Address and telephone number of Registrant's principal executive offices)

Kyle Kazan
3645 Long Beach Blvd.
Long Beach, California 90807
212-299-7670

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act: **None**.

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	**N/A**	**N/A**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **Subordinate, Restricted and Limited Voting Shares, without par value.**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None.**

For annual reports, indicate by check mark the information filed with this Form:

☐ Annual information form ☒ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. **As of December 31, 2022, there were 55,653,855 Subordinate, Restricted and Limited Voting Shares and 4,754,979 Multiple Voting Shares outstanding.**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 12b-2 of the Exchange Act.

Emerging growth company ☒

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards † provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant 's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

PRINCIPAL DOCUMENTS

The following documents have been filed as part of this Annual Report on Form 40-F (this "Annual Report"):

A. Audited Consolidated Financial Statements of Glass House Brands Inc. (the "Company") as at and for the years ended December 31, 2022 and 2021, including the notes thereto, together with the report of the independent registered public accounting firm thereon (the "Audited Annual Financial Statements"); and

B. Management's Discussion and Analysis of the Company for the year ended December 31, 2022 (the "2022 MD&A").

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Annual Report (the "Evaluation Date"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures, as a result of the material weaknesses in the Company's internal control over financial reporting, were not effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission and (ii) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

For management's annual report on internal control over financial reporting, see "Disclosure Controls and Internal Control Over Financial Reporting set forth in the 2022 MD&A filed as Exhibit 99.2 to this Annual Report, incorporated herein by reference.

ATTESTATION REPORT OF THE REGISTERED PUBLIC ACCOUNTING FIRM

In accordance with the United States Jumpstart Our Business Startup Act (the "JOBS Act") enacted on April 5, 2012, the Company qualifies as an "emerging growth company" (an "EGC"), which entitles the Company to take advantage of certain exemptions from various reporting requirements. Specifically, the JOBS Act defers the requirement to have the Company's independent auditor assess the Company's internal controls over financial reporting under Section 404(b) of the Sarbanes-Oxley Act. As such, the Company is exempted from the requirement to include an auditor attestation report in this Annual Report for so long as the Company remains an EGC, which may be for as long as five years following its initial registration in the United States.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the period covered by this Annual Report, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

NOTICES PURSUANT TO REGULATION BTR

There were no notices required by Rule 104 of Regulation BTR that the Company sent during the year ended December 31, 2022 concerning any equity security subject to a blackout period under Rule 101 of Regulation BTR.

AUDIT COMMITTEE FINANCIAL EXPERT

The Company's board of directors has determined that the Company has at least one "audit committee financial expert" (as defined in paragraph (8)(b) of General Instruction B to Form 40-F) and that Hector De La Torre is the Company's "audit committee financial expert" serving on the Audit Committee of the board of directors of the Company. Hector De La Torre is "independent" (as determined under Exchange Act Rule 10A-3) and Nasdaq listing standards.

CODE OF BUSINESS CONDUCT AND ETHICS

The Company has adopted a code of business conduct and ethics that applies to all members of its board of directors, as well as its senior officers and other employees. A copy of the code of business conduct and ethics is posted on the Company's Internet website at

www.glasshousebrands.com. If there are any amendments to the code of business conduct and ethics, the Company intends to provide a brief description of the amendment and a copy of the amendment via its website. No amendments to the code of business conduct and ethics were made and no waivers of the code of business conduct and ethics have been granted to any principal officer of the Company or any person performing similar functions during the year ended December 31, 2022. Information contained or otherwise accessed through the Company's website or any other website, other than those documents filed as exhibits hereto or otherwise specifically referred to herein, does not form part of this Annual Report, and any reference to the Company's website herein is as an inactive textual reference only.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets out the fees billed to the Company by Macias Gini & O'Connell LLP for professional services rendered in each of the years ended December 31, 2022 and 2021. During these years, Macias Gini & O'Connell LLP was the Company's only external auditor.

(in US$)	Year ended December 31, 2022	Year ended December 31, 2021
Audit Fees (note 1)	$ 1,285,294	$ 1,346,799
Audit-Related Fees	—	—
Tax Fees (note 2)	47,271	—
All Other Fees	—	—
	$ 1,332,565	$ 1,346,799

Notes:

1. The aggregate fees billed for audit services.

2. The aggregate fees billed for tax compliance services of an acquired entity.

The Company's Audit Committee pre-approves all audit services and permitted non-audit services provided to the Company by Macias Gini & O'Connell LLP.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

CONTRACTUAL OBLIGATIONS

The information provided under the heading "Contractual Obligations" set forth in the 2022 MD&A filed as Exhibit 99.2 to this Annual Report, incorporated herein by reference.

IDENTIFICATION OF THE AUDIT COMMITTEE

Not applicable.

MINE SAFETY DISCLOSURE

Not applicable.

DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

The Company undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

B. Consent to Service of Process

A written consent to service of process on Form F-X has been previously filed with the Commission. Any change to the name or address of the Company's agent for service shall be communicated promptly to the Commission by amendment to the Form F-X referencing the file number of the Company.

EXHIBIT INDEX

The following documents are being filed with the Commission as exhibits to this Annual Report.

Exhibit No.	Description
99.1	Audited Consolidated Financial Statements for the years ended December 31, 2022 and 2021
99.2	Management's Discussion and Analysis of the Company for the year ended December 31, 2022
99.3*	Annual Information Form for the year ended December 31, 2022
99.4	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act
99.5	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act
99.6**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350
99.7	Consent of Macias Gini & O'Connell LLP
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* To be filed by amendment.

** This exhibit is furnished with this Annual Report, is not deemed filed with the Commission, and is not incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereto duly authorized.

GLASS HOUSE BRANDS INC.

Date: March 31, 2023

By: /s/ Kyle Kazan
Name: Kyle Kazan
Title: Chief Executive Officer

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Exhibit 99.1



GLASS HOUSE BRANDS INC.
(FORMERLY MERCER PARK BRAND ACQUISITION CORP.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2022 AND 2021

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GLASS HOUSE BRANDS INC.
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Glass House Brands Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Glass House Brands Inc. (the “Company”) as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in shareholders’ equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with the accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Macias Gini & O’Connell LLP

We have served as the Company's auditor since 2020.

Los Angeles, California
March 31, 2023
PCAOB ID Number 324

GLASS HOUSE BRANDS INC.
Consolidated Balance Sheets
As of December 31, 2022 and 2021
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	2022	2021
ASSETS		
Current Assets:		
Cash	$ 11,143,502	$ 51,066,831
Restricted Cash	3,000,000	3,000,000
Accounts Receivable, Net	5,652,949	2,893,911
Prepaid Expenses and Other Current Assets	8,347,055	5,562,963
Inventory	12,057,570	6,596,302
Notes Receivable	1,255,843	—
Total Current Assets	41,456,919	69,120,007
Operating Lease Right-of-Use Assets, Net	10,847,642	3,077,730
Long Term Investments	4,246,192	7,196,359
Property, Plant and Equipment, Net	216,716,895	195,798,524
Intangible Assets, Net	48,651,835	5,629,833
Goodwill	21,808,566	4,918,823
Deferred Tax Asset	1,289,882	—
Other Assets	3,650,468	2,339,993
TOTAL ASSETS	**$ 348,668,399**	**$ 288,081,269**
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	$ 22,333,788	$ 10,215,004
Income Taxes Payable	7,549,878	5,038,983
Contingent Shares and Earnout Liabilities	14,656,666	38,428,700
Shares Payable	8,588,915	2,756,830
Current Portion of Operating Lease Liabilities	1,077,971	269,154
Current Portion of Notes Payable	40,237	37,986
Total Current Liabilities	54,247,455	56,746,657
Operating Lease Liabilities, Net of Current Portion	9,859,232	2,865,480
Other Non-Current Liabilities	4,505,336	1,449,045
Deferred Tax Liabilities	—	1,330,815
Notes Payable, Net of Current Portion	62,618,711	44,817,436
TOTAL LIABILITIES	**131,230,734**	**107,209,433**
MEZZANINE NON-CONTROLLING INTEREST:		
GH Group, Inc. Preferred Series B Shares (no par value, 55,000 shares authorized, 49,969 and nil shares issued and outstanding as of December 31, 2022 and December 31, 2021, respectively)	51,774,193	—
GH Group, Inc. Preferred Series C Shares (no par value, 5,000 shares authorized, 4,700 and nil shares issued and outstanding as of December 31, 2022 and December 31, 2021, respectively)	4,759,925	—
SHAREHOLDERS' EQUITY:		
Multiple Voting Shares (No par value, unlimited shares authorized, 4,754,979 shares issued and outstanding as of December 31, 2022 and December 31, 2021, respectively)	—	—
Subordinate Voting Shares (No par value, unlimited shares authorized, 55,653,855 and 38,563,405 shares issued and outstanding as of December 31, 2022 and December 31, 2021, respectively)	—	—
Exchangeable Shares (No par value, unlimited shares authorized, 12,566,550 and 18,256,784 shares issued and outstanding as of December 31, 2022 and December 31, 2021, respectively)	—	—
Additional Paid-In Capital	261,527,245	241,896,900
Accumulated Deficit	(96,362,182)	(60,827,290)
Total Shareholders' Equity Attributable to the Company	165,165,063	181,069,610
Non-Controlling Interest	(4,261,516)	(197,774)
TOTAL SHAREHOLDERS' EQUITY	**217,437,665**	**180,871,836**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 348,668,399**	**$ 288,081,269**

GLASS HOUSE BRANDS INC.
Consolidated Statements of Operations
For the Years Ended December 31, 2022 and 2021
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	2022	2021
Revenues, Net	$ 90,891,087	$ 69,446,852
Cost of Goods Sold (Exclusive of Depreciation and Amortization Shown Separately Below)	69,352,692	53,427,461
Gross Profit	21,538,395	16,019,391
Operating Expenses:		
General and Administrative	45,756,572	33,780,783
Sales and Marketing	3,427,338	3,530,529
Professional Fees	9,951,482	9,078,289
Depreciation and Amortization	12,301,466	4,767,396
Total Operating Expenses	71,436,858	51,156,997
Loss from Operations	(49,898,463)	(35,137,606)
Other Expense (Income):		
Interest Expense	7,608,490	2,736,875
Interest Income	(56,468)	(64,837)
Loss on Investments	2,006,639	1,089,047
Loss (Gain) on Change in Fair Value of Derivative Liabilities	29,863	(825,000)
(Gain) on Change in Fair Value of Contingent Liabilities and Shares Payable	(28,868,949)	(4,031,634)
Loss on Disposition of Subsidiary	—	6,090,337
Loss on Extinguishment of Debt	489,647	—
Impairment Expense	—	817,875
Other (Income) Expense, Net	(252,822)	117,216
Total Other (Income) Expense, Net	(19,043,600)	5,929,879
Loss from Operations Before Provision for Income Tax Expense	(30,854,863)	(41,067,485)
Provision for Income Tax Expense	4,741,704	3,298,101
Net Loss	**(35,596,567)**	**(44,365,586)**
Net Loss Attributable to Non-Controlling Interest	(61,675)	(197,774)
Net Loss Attributable to the Company	**$ (35,534,892)**	**$ (44,167,812)**
Loss Per Share - Basic and Diluted	**$ (0.87)**	**$ (1.14)**
Weighted-Average Shares Outstanding - Basic and Diluted	**64,182,436**	**40,280,639**

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GLASS HOUSE BRANDS INC.
Consolidated Statements of Changes in Shareholders' Equity
For the Year Ended December 31, 2021
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	Units	Units	Units	Units	$Amount	Units	$Amount					
	Multiple Voting Shares	Subordinate Voting Shares	Exchangeable Voting Shares	Class A Common Shares	Class A Common Shares	Class B Common Shares	Class B Common Shares	Additional Paid-In Capital	Accumulated Deficit	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS	Non-Controlling Interest	TOTAL SHAREHOLDERS' EQUITY
BALANCE AS OF DECEMBER 31, 2020, As Previously Reported	**—**	**—**	**—**	**205,900,164**	**$ 2,059**	**32,295,270**	**$ 323**	**$ 42,932,020**	**$(16,659,478)**	**$ 26,274,924**	**$ —**	**$ 26,274,924**
Retroactive Application of Recapitalization (1)	—	—	23,191,563	(205,900,164)	(2,059)	(32,295,270)	(323)	2,382	—	—	—	—
Balance at December 31, 2020, After Effect of Retroactive Application of Recapitalization (1)	—	—	23,191,563	—	—	—	—	42,934,402	(16,659,478)	26,274,924	—	26,274,924
Net Loss	—	—	—	—	—	—	—	—	(44,167,812)	(44,167,812)	(197,774)	(44,365,586)
Share-Based Compensation from Options and RSU's	—	—	—	—	—	—	—	8,484,913	—	8,484,913	—	8,484,913
Share-Based Compensation from Common Shares (1)	—	—	48,682	—	—	—	—	225,000	—	225,000	—	225,000
Issuance for Business Acquisition (1)	—	—	731,369	—	—	—	—	3,380,278	—	3,380,278	—	3,380,278
Issuance for Conversion of Convertible Debt (1)	—	—	646,096	—	—	—	—	1,925,000	—	1,925,000	—	1,925,000
Preferred Shares of Subsidiary Issued for Conversion of Debt (1)	—	—	—	—	—	—	—	31,285,258	—	31,285,258	—	31,285,258
Derivative Liability Reclassed to Equity Upon Conversion of Debt	—	—	—	—	—	—	—	6,722,000	—	6,722,000	—	6,722,000
Issuance for Conversion of Preferred Shares (1)	—	—	2,577,227	—	—	—	—	—	—	—	—	—
Issuance for Exercise of Warrants (1)	—	—	160,149	—	—	—	—	—	—	—	—	—
Issuance for Exercise of Options	—	479,195	—	—	—	—	—	88,654	—	88,654	—	88,654
Shares Payable for Asset Acquisition	—	—	—	—	—	—	—	748,500	—	748,500	—	748,500
Reclass of Shares Payable	—	—	—	—	—	—	—	(2,756,830)	—	(2,756,830)	—	(2,756,830)
Fair Value of Warrants Issued in Connection with Debt	—	—	—	—	—	—	—	3,276,764	—	3,276,764	—	3,276,764
Shares Issued in Business Combination for Cash	4,754,979	22,335,908	—	—	—	—	—	116,630,384	—	116,630,384	—	116,630,384
Issuance for Conversion of Exchangeable Shares	—	9,098,302	(9,098,302)	—	—	—	—	—	—	—	—	—
Cash Received for Shares Issued	—	150,000	—	—	—	—	—	1,500,000	—	1,500,000	—	1,500,000
Shares Issued for the Purchase of Property and Equipment	—	6,500,000	—	—	—	—	—	29,250,000	—	29,250,000	—	29,250,000
Distributions to Preferred Shareholders	—	—	—	—	—	—	—	(1,797,423)	—	(1,797,423)	—	(1,797,423)
BALANCE AS OF DECEMBER 31, 2021	**4,754,979**	**38,563,405**	**18,256,784**	**—**	**$ —**	**—**	**$ —**	**$ 241,896,900**	**$(60,827,290)**	**$ 181,069,610**	**$ (197,774)**	**$ 180,871,836**

(1) Amounts shown have been retroactively restated to give effect to the recapitalization transaction at a rate of 1 to 10.27078 GH Group shares.

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GLASS HOUSE BRANDS INC.
Consolidated Statements of Changes in Shareholders' Equity
For the Year Ended December 31, 2022
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	Units	Units	Units				$Amount	$Amount		
	Multiple Voting Shares	Equity Shares	Exchangeable Voting Shares	Additional Paid-In Capital	Accumulated Deficit	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS	Mezzanine Non-Controlling Equity Preferred Series B	Mezzanine Non-Controlling Equity Preferred Series C	Non-Controlling Interest	TOTAL SHAREHOLDERS' EQUITY
BALANCE AS OF DECEMBER 31, 2021	**4,754,979**	**38,563,405**	**18,256,784**	**$ 241,896,900**	**$ (60,827,290)**	**$ 181,069,610**	**$ —**	**$ —**	**$ (197,774)**	**$ 180,871,836**
Net Loss	—	—	—	—	(35,534,892)	(35,534,892)	—	—	(61,675)	(35,596,567)
Share-Based Compensation from Options and RSU's	—	—	—	12,755,681	—	12,755,681	—	—	—	12,755,681
Issuance for Business Acquisition	—	8,417,325	—	25,266,796	—	25,266,796	—	—	—	25,266,796
Fair Value of Incentive Shares Issued in a Business Acquisition	—	—	—	188,122	—	188,122	—	—	—	188,122
Reclassification of Series A Preferred Shares to Non-Controlling Interests	—	—	—	(29,487,835)	—	(29,487,835)	—	—	29,487,835	—
Redemption of Series A Prferred Shares	—	—	—	—	—	—	—	—	(772,718)	(772,718)
Issuance of Series B Preferred Shares and Warrants	—	—	—	7,790,939	—	7,790,939	19,467,011	—	—	27,257,950
Issuance of Series C Preferred Shares and Warrants	—	—	—	966,208	—	966,208	—	3,733,792	—	4,700,000
Exchange of Series A Preferred Shares and Warrants For Series B Shares and Preferred Warrants	—	—	—	—	—	—	17,082,976	—	(17,082,976)	—
Adjustment of Series B Preferred Shares to Redemption Value	—	—	—	—	—	—	13,449,142	—	(13,449,142)	—
Adjustment of Series C Preferred Shares to Redemption Value	—	—	—	—	—	—	—	966,208	(966,208)	—
Issuance for Payment of Interest on Convertible Debentures	—	347,108	—	868,763	—	868,763	—	—	—	868,763
Issuance for Conversion of Exchangeable Shares	—	5,936,636	(5,936,636)	—	—	—	—	—	—	—
Shares Issued for Exercise of Options	—	227,116	—	303,694	—	303,694	—	—	—	303,694
Shares Issued for Exercise of Restricted Stock Units	—	2,162,265	—	—	—	—	—	—	—	—
Contributions	—	—	—	888,727	—	888,727	—	—	4,616,273	5,505,000
Fair Value of Warrants Issued with Debt	—	—	—	89,250	—	89,250	—	—	—	89,250
Issuance for Working Capital Adjustment	—	—	246,402	—	—	—	—	—	—	—
Dividends - Preferred Shareholders	—	—	—	—	—	—	1,775,064	59,925	(5,835,131)	(4,000,142)
BALANCE AS OF DECEMBER 31, 2022	**4,754,979**	**55,653,855**	**12,566,550**	**$ 261,527,245**	**$ (96,362,182)**	**$ 165,165,063**	**$ 51,774,193**	**$ 4,759,925**	**$ (4,261,516)**	**$ 217,437,665**

GLASS HOUSE BRANDS INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ (35,596,567)	$ (44,365,586)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Deferred Tax Expense	(2,620,697)	(89,768)
Bad Debt Expense	969,501	3,286,494
Interest Capitalized to Notes Payable	—	1,427,522
Interest Income Capitalized to Principal Balance	—	(64,085)
Depreciation and Amortization	12,301,466	4,767,396
Loss on Equity Method Investments	2,006,639	1,089,047
Impairment Expense	—	817,875
Loss on Disposition of Subsidiary	—	6,090,337
Loss on Extinguishment of Debt	489,647	—
Non-Cash Operating Lease Costs	32,657	18,523
Accretion of Debt Discount and Loan Origination Fees	1,521,638	953,549
(Gain) Loss on Change in Fair Value of Derivative Liabilities	29,863	(825,000)
(Gain) on Change in Fair Value of Contingent Liabilities and Shares Payable	(28,868,949)	(4,031,634)
Share-Based Compensation	12,755,681	8,709,913
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(2,013,793)	2,182,335
Prepaid Expenses and Other Current Assets	(2,157,037)	(2,915,401)
Inventory	(1,536,213)	612,989
Other Assets	(1,243,174)	(1,881,146)
Accounts Payable and Accrued Liabilities	559,501	3,242,190
Interest Payments on Finance Leases	(14,577)	—
Income Taxes Payable	712,507	89,514
Other Non-Current Liabilities	1,867,139	599,687
NET CASH USED IN OPERATING ACTIVITIES	**(40,804,768)**	**(20,285,249)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(27,765,732)	(108,495,825)
Issuance of Note Receivable	(6,717,100)	(2,274,167)
Contributions to Equity Method Investments	(513,343)	(787,502)
Distributions Received from Equity Method Investments	3,001,871	340,780
Cash Acquired in Business Acquisition, Net of Cash Paid	2,793,631	(284,028)
NET CASH USED IN INVESTING ACTIVITIES	**(29,200,673)**	**(111,500,742)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the Issuance of Notes Payable, Third Parties and Related Parties	9,421,000	58,209,714
Proceeds from the Issuance of Preferred Shares	31,957,950	—
Redemption of Preferred Shares	(772,718)	—
Payments on Notes Payable, Third Parties and Related Parties	(9,887,672)	(954,092)
Cash Received Upon Issuance of Equity	303,694	125,859,372
Contributions	3,060,000	—
Distributions to Preferred Shareholders	(4,000,142)	(1,797,423)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**30,082,112**	**181,317,571**
NET (DECREASE) INCREASE IN CASH, RESTRICTED CASH AND CASH EQUIVALENTS	**(39,923,329)**	**49,531,580**
Cash, Restricted Cash and Cash Equivalents, Beginning of Year	54,066,831	4,535,251
CASH, RESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 14,143,502**	**$ 54,066,831**

GLASS HOUSE BRANDS INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	2022	2021
SUPPLEMENTAL DISCLOSURE FOR CASH FLOW INFORMATION		
Cash Paid for Interest	$ 4,713,783	$ 379,956
Cash Paid for Taxes	$ 4,129,492	$ 2,643,093
Non-Cash Investing and Financing Activities:		
Net Assets Acquired From an Acquisition, Excluding Cash Acquired	$ 62,711,127	$ 5,709,615
Proceeds Deposited Into Escrow Account	$ —	$ 2,029,932
Purchase of Property and Equipment from Proceeds of Note Payable, Third Parties	$ 242,868	$ 255,757
Conversion of Convertible Debt and Derivative Liability to Equity	$ —	$ 39,932,258
Shares Payable for Asset Acquisition	$ —	$ 748,500
Issuance of Equity for Relief of Liabilities	$ 868,763	$ —
Recognition of Right-of-Use Assets for Finance Leases	$ 301,022	$ —
Exchange of Series A Preferred Shares and Warrants For Series B Shares and Preferred Warrants	$ 17,082,976	$ —
Accretion of Series B and C Preferred Shares to Redemption Value	$ 14,415,350	$ —
Recognition of Right-of-Use Assets for Operating Leases	$ 8,614,907	$ 1,419,650
Conversion of Note Receivable to Equity of Investee	$ 5,461,257	$ —
Fair Value of Warrants Issued in Connection with Debt	$ 89,250	$ 3,276,764
Derivative Liability Incurred Upon Issuance of Convertible Debt	$ —	$ 182,000
Reclass of Shares Payable	$ —	$ 2,756,830
Non-Cash Investment and Non-Controlling Interest Addition	$ 2,445,000	$ —
Interest Capitalized to Property and Equipment	$ 1,043,392	$ —
Shares Issued for the Purchase of Property and Equipment	$ —	$ 29,250,000
Contingent Liabilities Recognized for the Purchase of Property and Equipment	$ —	$ 34,820,000
Contingent Earnout Recorded as a Liability	$ —	$ 7,640,334

GLASS HOUSE BRANDS INC.
Notes to Consolidated Financial Statements
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

1. NATURE OF OPERATIONS

Glass House Brands Inc. (the "Company"), formerly known as Mercer Park Brand Acquisition Corp. ("Mercer Park"), was incorporated under the *Business Corporations Act* (British Columbia) on April 16, 2019. The Company is a vertically integrated cannabis company that operates exclusively in the state of California. The Company, through its subsidiaries cultivates, manufactures, and distributes cannabis bulk flower and trim to wholesalers and consumer packaged goods to third-party retail stores in the state of California. The Company also owns and operates retail cannabis stores in the state of California. The Company's subordinate voting shares (the "Subordinate Voting Shares"), restricted voting shares (the "Restricted Voting Shares") and limited voting shares (the "Limited Voting Shares", and collectively with the Subordinate Voting Shares and the Restricted Voting Shares, the "Equity Shares"), and common share purchase warrants are listed on the NEO Exchange Inc., trading under the symbols "GLAS.A.U" and "GLAS.WT.U", respectively. The Equity Shares and common share purchase warrants also trade on the OTCQX in the United States under the symbols "GLASF" and "GHBWF", respectively. The head office and principal address of the Company is 3645 Long Beach Boulevard, Long Beach, California 90807. The Company's registered office in Canada is 2200 HSBC Building 885 West Georgia Street, Vancouver, British Columbia, Canada V6C 3E8.

Business Combination Transaction

On January 31, 2020, pursuant to an Agreement and Plan of Merger (and various securities exchange agreements), a roll-up transaction (the "Roll-Up") was consummated whereby the assets and liabilities of a combined group of investment fund entities were merged with and into GH Group, Inc., formerly known as California Cannabis Enterprises, Inc. ("GH Group"), whereby GH Group survived the merger and now owns and controls the assets from such merged out entities.

On June 29, 2021, Mercer Park, a special purpose acquisition corporation (or "SPAC") listed on the Neo Exchange Inc. in Canada, consummated its qualifying transaction (the "Business Combination") pursuant to the terms of an Agreement and Plan of Merger dated as of April 8, 2021, as amended (the "Business Combination Agreement"), pursuant to which Mercer Park indirectly acquired 100% of the common equity interests of GH Group, which included all outstanding Class A and Class B common shares and a certain portion of Series A preferred shares (the "Preferred Shares") which were converted to common equity interests of GH Group. In addition, Mercer Park assumed all outstanding common share purchase warrants and the Preferred Shares purchase warrants and assumed or exchanged or caused to be exchanged all qualified incentive stock options of GH Group. The Business Combination was effectuated by a reverse merger of an indirect subsidiary of Mercer Park with GH Group, with GH Group as the surviving entity that became a majority-owned indirect subsidiary of the Company. As a result of the Business Combination, GH Group's shareholders became the controlling shareholders of Mercer Park, which changed its name to Glass House Brands Inc. concurrently with the closing of the Business Combination.

Upon closing of the Business Combination, Mercer Park indirectly acquired all of the issued and outstanding securities of GH Group with the exception of a portion of GH Group's Preferred Shares, in exchange for an aggregate of 50,151,101 Equity Shares of the Company (which in total includes, on an as-exchanged basis, the Equity Shares issuable upon exchange of outstanding exchangeable shares (the "Exchangeable Shares") of the Company's subsidiary, MPB Acquisition Corp. ("MPB")). The Company also issued 4,754,979 Multiple Voting Shares to certain founders of GH Group. In addition, 28,489,500 of the common share purchase warrants previously issued and outstanding in the capital of Mercer Park were assumed and remain outstanding. Of the 50,151,101 Equity Shares (inclusive of the Exchangeable Shares on an as-exchanged basis) noted above, 731,369 Exchangeable Shares are held in escrow pending any final working capital adjustments. Additionally, 1,008,975 Equity Shares issued to the previous sponsor of Mercer Park are subject to a contractual lock-up with the Company. These shares are to be released from the lock-up restrictions based upon the amount of cash raised by the Company from certain debt and equity financings through June 2023. As of December 31, 2022, the Company released 392,819 Equity Shares that were originally subject to the lock-up restrictions, and 616,156 Equity Shares are subject to a capital-based earnout of permitted debt or equity financings within one year following the closing of the Business Combination. As of December 31, 2022, additional earnout payments consisting of up to an additional 6,306,095 Equity Shares were issuable to the previous sponsor of Mercer Park and all holders of record of the Company's Equity Shares, the Exchangeable Shares, vested stock options and vested restricted stock units ("RSUs") as of December 31, 2022, in the event the 20-day volume-weighted average price ("VWAP") of the Equity Shares reaches $13.00 or $15.00 within two years of closing the Business Combination. In the event that the permitted debt or equity raised by the Company and the Equity Share price targets are not met, the earnout payments will be forfeited.

1. NATURE OF OPERATIONS *(Continued)*

GH Group was deemed to be the acquirer in the Business Combination for accounting and financial reporting purposes based on an analysis of the criteria outlined in Accounting Standards Codification ("ASC") 805 *"Business Combinations"* ("ASC 805"). This determination was primarily based on GH Group's stockholders prior to the Business Combination having a majority of the voting interests in the Company following the closing of the Business Combination, GH Group's operations comprising the entirety of the ongoing operations of the Company, GH Group's designees comprising a majority of the board of directors of Company, and GH Group's senior management comprising the senior management of the Company. Accordingly, for accounting purposes, the Business Combination was treated as the equivalent of GH Group issuing stock for the net assets of Mercer Park, accompanied by a recapitalization. The net assets of Mercer Park are stated at historical cost, with no goodwill or other intangible assets recorded.

While Mercer Park was the legal acquirer in the Business Combination, because GH Group was deemed the accounting acquirer, the historical financial statements of GH Group became the historical financial statements of the Company upon the consummation of the Business Combination. As a result, the financial statements included in this report reflect (i) the historical operating results of GH Group prior to the Business Combination; (ii) the combined results of the Company and GH Group following the closing of the Business Combination; (iii) the assets and liabilities of GH Group at their historical cost; and (iv) the Company's equity structure before and after the Business Combination.

In accordance with applicable guidance, the equity structure of the Company has been restated in all comparative periods to reflect the number of Equity Shares (including the Exchangeable Shares on an as-exchanged basis) issued to GH Group's shareholders in connection with the Business Combination on the statement of changes in shareholders equity and the footnotes to the Financial Statements. As such, the shares and corresponding capital amounts and earnings per share related to GH Group's Class A and Class B common shares prior to the Business Combination have been retroactively restated to reflect an exchange ratio of 10.27078 Class A or Class B common shares of GH Group, as applicable, per 1 Equity Share of the Company, as established pursuant to the Business Combination Agreement.

COVID-19

In response to the COVID-19 pandemic, governmental authorities have enacted and implemented various recommendations and safety measures in an attempt to limit the spread and magnitude of the pandemic. The COVID-19 pandemic, including government measures to limit the spread of COVID-19, did not have a material adverse impact on the Company's results of operations during the current reporting period. While the ultimate severity of the outbreak and its impact on the economic environment remains uncertain, the Company continues to closely monitor the potential impact that a resurgence of the COVID-19 virus, including as a result of the emergence of new variants and strains, could have on the Company's operations. In the event that the Company were to experience widespread transmission of the virus at one or more of the Company's stores or other facilities, the Company could suffer reputational harm or other potential liabilities. Further, the Company's business operations may be materially and adversely affected if a significant number of the Company's employees are impacted by the virus.

GLASS HOUSE BRANDS INC.
Notes to Consolidated Financial Statements
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

1. NATURE OF OPERATIONS *(Continued)*

Liquidity

Historically, the Company's primary source of liquidity has been its operations, capital contributions made by equity investors and debt issuances. The Company is meeting its current operational obligations as they become due from its current working capital and from operations. However, the Company has sustained losses since inception and may require additional capital in the future. As of and for the year ended December 31, 2022, the Company had an accumulated deficit of $96,362,182, a net loss from operations of $35,534,892 and net cash used in operating activities of $ 40,804,768. The Company estimates that based on current business operations and working capital, it will continue to meet its obligations as they become due in the short term.

The Company is generating cash from revenues and deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are primarily being utilized for capital expenditures, facility improvements, product development and marketing.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages its liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. In the event sufficient cash flow is not available from operating activities, the Company may continue to raise equity or debt capital from investors in order to meet liquidity needs. If the Company is not able to secure adequate additional funding, the Company may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, or suspend or curtail planned programs. Any of these actions could materially harm the Company's business, results of operations and future prospects. There can be no assurance that such financing will be available or will be on terms acceptable to the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The accompanying Consolidated Financial Statements have been prepared on a going concern basis in accordance with accounting principles generally accepted in the United States of America ("GAAP") and reflect the accounts and operations of the Company and those of the Company's subsidiaries in which the Company has a controlling financial interest. Investments in entities in which the Company has significant influence, but less than a controlling financial interest, are accounted for using the equity method.

All intercompany transactions and balances have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial position of the Company as of December 31, 2022 and 2021, the consolidated results of operations and cash flows for the years ended December 31, 2022 and 2021 have been included.

Consolidation of Variable Interest Entities (a "VIE")

ASC 810 "*Consolidation*" ("ASC 810") requires a variable interest holder to consolidate a VIE if that party has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. To determine whether or not a variable interest the Company holds could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size and form of the Company's involvement with the VIE. The equity method of accounting is applied to entities in which the Company is not the primary beneficiary, or the entity is not a VIE and the Company does not have effective control, but can exercise influence over the entity with respect to its operations and major decisions. The Company does not consolidate a VIE in which it is not considered the primary beneficiary. The Company evaluates its relationships with all the VIE's on an ongoing basis to reassess if it continues to be the primary beneficiary.

GLASS HOUSE BRANDS INC.
Notes to Consolidated Financial Statements
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of Consolidation

These Consolidated Financial Statements as of December 31, 2022 and 2021 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in ASC 810. 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 has ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than fifty percent of the outstanding voting securities of another entity. In assessing control, potential voting rights that are currently exercisable are considered.

The following are the Company's principal wholly-owned or controlled subsidiaries and/or affiliates that are included in these consolidated financial statements as of and for the years ended December 31, 2022 and 2021:

Corporate Entities

Entity	Location	Purpose	Ownership	
			2022	2021
MPB Acquisition Corp	Nevada	Holding company	100 %	100 %
GH Group Inc	Long Beach, CA	Holding company	100 %	100 %
GHB Unsub LLC	Long Beach, CA	Holding company	100 %	100 %
Glass House Retail, LLC	Long Beach, CA	Holding company	100 %	100 %
Glass House Cultivation LLC	Camarillo	Holding company	100 %	100 %
Glass House Manufacturing LLC	Lompoc, CA	Holding company	100 %	100 %
LOB Investment Co. LLC	Long Beach, CA	Holding company	100 %	100 %
SoCal Hemp Co, LLC	Long Beach, CA	Holding company	0 %	100 %
Plus Products Holding Inc.	Long Beach, CA	Holding company	100 %	0 %
Plus Products Nevada LLC	Long Beach, CA	Holding company	100 %	0 %
Plus Products Services LLC	Long Beach, CA	Holding company	100 %	0 %
Plus Products Wonders LLC	Long Beach, CA	Holding company	100 %	0 %
Uplift Services LLC	Long Beach, CA	Holding company	100 %	0 %
Carberry LLC	Long Beach, CA	Holding company	100 %	0 %

GLASS HOUSE BRANDS INC.
Notes to Consolidated Financial Statements
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Management and Operating Entities

Subsidiaries	Location	Purpose	Ownership 2022	Ownership 2021
G&H Supply Company, LLC	Carpinteria, CA	Cultivation management	100 %	100 %
Mission Health Associates, Inc.	Carpinteria, CA	Cannabis cultivation	100 %	100 %
MGF Management LLC	Carpinteria, CA	Cultivation management	100 %	100 %
G&K Produce LLC	Carpinteria, CA	Cannabis cultivation	100 %	100 %
K&G Flowers LLC	Carpinteria, CA	Cannabis cultivation	100 %	100 %
Glass House Camarillo Cultivation LLC	Camarillo, CA	Cannabis cultivation	100 %	100 %
Lompoc Manufacturing GHG, LLC	Lompoc, CA	Cannabis processing	100 %	100 %
Lompoc Management Co. LLC	Lompoc, CA	Manufacturing management	100 %	100 %
CA Manufacturing Solutions LLC	Lompoc, CA	Cannabis manufacturing	100 %	100 %
Bud and Bloom Inc	Santa Ana, CA	Cannabis retail	100 %	100 %
Farmacy SB Inc	Santa Barbara, CA	Cannabis retail	100 %	100 %
ICANN LLC	Berkeley, CA	Cannabis retail	100 %	100 %
Farmacy Isla Vista LLC	Goleta, CA	Cannabis retail	100 %	100 %
SBDANK LLC	Santa Ynez, CA	Cannabis retail applicant	51 %	51 %
E7 Eureka LLC	Eureka, CA	Cannabis retail applicant	100 %	100 %
The Pottery Inc	Los Angeles, CA	Cannabis retail	100 %	0 %
Natural Healing Center LLC	Grover Beach, CA	Cannabis retail	100 %	0 %
NHC Lemoore LLC	Lemoore, CA	Cannabis retail	100 %	0 %
NHC-MB LLC	Morro Bay, CA	Cannabis retail	100 %	0 %
GHCC Management, LLC	Carpinteria, CA	Cultivation management	0 %	100 %
Saint Gertrude Management Company, LLC	Santa Ana, CA	Retail Management	0 %	100 %

Real Estate Entities

Subsidiaries	Location	Purpose	Ownership 2022	Ownership 2021
Glass House Farm LLC	Carpinteria, CA	Real Estate	100 %	100 %
Magu Farm LLC	Carpinteria, CA	Real Estate	100 %	100 %
East Saint Gertrude 1327 LLC	Santa Ana, CA	Real Estate	100 %	100 %
GH Camarillo LLC	Camarillo, CA	Real Estate	100 %	100 %
2000 De La Vina LLC	Santa Barbara, CA	Real Estate	0 %	100 %

Non-Controlling Interest

Non-controlling interest represents equity interests owned by parties that are not shareholders of the ultimate parent. The share of net assets attributable to non-controlling interests is presented as a component of equity. Their share of net income or loss is recognized directly in equity. Changes in the parent company's ownership interest that do not result in a loss of control are accounted for as equity transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Use of Estimates

The preparation of the Consolidated Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the Consolidated Financial Statements and the reported amounts of total net revenue and expenses during the reporting period. The Company regularly evaluates significant estimates and assumptions related to the consolidation or non-consolidation of variable interest entities, estimated useful lives, depreciation of property and equipment, amortization of intangible assets, inventory valuation, share-based compensation, business combinations, goodwill impairment, long-lived asset impairment, purchased asset valuations, fair value of financial instruments, compound financial instruments, derivative liabilities, deferred income tax asset valuation allowances, incremental borrowing rates, lease terms applicable to lease contracts and going concern. These estimates and assumptions are based on current facts, historical experience and various other factors that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses that are not readily apparent from other sources. The actual results the Company experiences may differ materially and adversely from these estimates. To the extent there are material differences between the estimates and actual results, the Company's future results of operations could be negatively impacted.

Segmented Information

The Company currently operates in one segment, the production and sale of cannabis products, which is how the Company's Chief Operating Decision Maker manages the business and makes operating decisions. All of the Company's operations are in the United States of America in the State of California. Intercompany sales and transactions are eliminated in consolidation.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. GH Group issued Series A Preferred Shares which were classified initially in error as additional paid-in-capital within shareholders' equity whereas they should have been classified within shareholders' equity as a non-controlling interest. The error resulted in an overstatement of total shareholders' equity attributable to the Company of approximately $29,487,000 and a corresponding understatement of non-controlling interest of approximately $29,487,000 for the year ended December 31, 2021. An adjustment has been made to the Consolidated Balance Sheet and Consolidated Statement of Changes in Shareholders' Equity as of and for the year ended December 31, 2022 to reclassify approximately $29,487,000 in shareholder's equity. The reclassification was not considered material to any prior period. There were no changes to total current assets, total assets, total current liabilities, total liabilities, total shareholders' equity, cash flows or profit and loss to any prior period as a result of this reclassification.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less.

Restricted Cash

Restricted cash balances are those which meet the definition of cash and cash equivalents but are not available for use by the Company. As of December 31, 2022 and 2021, restricted cash was $3.0 million and $3.0 million, respectively, which is held in an escrow account and used as an interest reserve for the Company's senior term loan agreement. See "*Note 16 – Notes Payable and Convertible Debentures*" for further discussion.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Accounts Receivable

The Company extends non-interest-bearing trade credit to its customers in the ordinary course of business which is not collateralized. Accounts receivable are shown on the face of the Consolidated Balance Sheets, net of an allowance for doubtful accounts. The Company analyzes the aging of accounts receivable, historical bad debts, customer creditworthiness and current economic trends in determining the allowance for doubtful accounts. The Company does not accrue interest receivable on past due accounts receivable. The reserve for doubtful accounts was $1,114,183 and $60,000 as of December 31, 2022 and 2021, respectively.

Inventory

Inventory is comprised of raw materials, finished goods and work-in-process such as pre-harvested cannabis plants and by-products to be extracted. The costs of growing cannabis, including but not limited to labor, utilities, nutrition and supplies, are capitalized into inventory until the time of harvest. All direct and indirect costs, except depreciation and amortization related to inventory are capitalized when incurred, and subsequently classified to cost of goods sold in the Consolidated Statements of Operations. Raw materials and work-in-process are stated at the lower of cost or net realizable value, determined using the weighted average cost. Finished goods inventory is stated at the lower of cost or net realizable value, with cost being determined on the first-in, first-out ("FIFO") method of accounting. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. The Company periodically reviews physical inventory for excess, obsolete, and potentially impaired items and reserves. The Company reviews inventory for obsolete, redundant and slow-moving goods, and any such inventory is written down to net realizable value. Packaging and supplies are initially valued at cost. The reserve estimate for excess and obsolete inventory is based on expected future use. The reserve estimates have historically been consistent with actual experience as evidenced by actual sale or disposal of the goods. As of December 31, 2022 and 2021, the Company's reserve was $353,994 and $784,289, respectively.

Investments

Long-term investments are related to investments in equity and debt securities of entities over which the Company does not have a controlling financial interest or significant influence and are accounted for at fair value in accordance with ASC 321, "*Investments—Equity Securities*", as well as investments and joint ventures in which the Company can exert significant influence but does not control.

Equity investments without readily determinable fair values (which are classified as Level 3 investments in the fair value hierarchy) are measured at cost with adjustments for observable changes in price or impairments (referred to as the "measurement alternative"). In applying the measurement alternative, the Company performs a qualitative assessment on a quarterly basis and recognizes an impairment if there are sufficient indicators that the fair value of the equity investments is less than carrying values. Changes in value are recorded in Other (Income) Expense, Net in the Consolidated Statement of Operations.

Equity Method and Joint Venture Investments

The Company accounts for investments in which it can exert significant influence but does not control as equity method investments in accordance with ASC 323, "*Investments—Equity Method and Joint Ventures*". In accordance with ASC 825, "*Financial Instruments*", the fair value option to measure eligible items at fair value on an instrument-by-instrument basis can be applied. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for under the equity method. These investments are recorded at the amount of the Company's initial investment and adjusted each period for the Company's share of the investee's income or loss, and dividends paid.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

Land	Not Depreciated
Buildings	15 Years
Finance Lease Assets	Shorter of Lease Term or Economic Life
Furniture and Fixtures	5 Years
Leasehold Improvements	Shorter of Lease Term or Economic Life
Equipment and Software	3 – 5 Years
Construction in Progress	Not Depreciated

The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting period and adjusted prospectively, if appropriate. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the Consolidated Statements of Operations in the period the asset is derecognized.

Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Intangible assets with a definite life are amortized on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. The estimated useful lives, residual values and amortization methods are reviewed at each reporting period, and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life or not yet available for use are not subject to amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

Dispensary Licenses	Indefinite
Intellectual Property	5-10 Years

In accordance with ASC 350, "*Intangibles—Goodwill and Other*" ("ASC 350"), costs of internally developing, maintaining or restoring intangible assets are expensed as incurred. Inversely, costs are capitalized when certain criteria are met through the point at which the intangible asset is substantially complete and ready for its intended use.

Goodwill

Goodwill is measured as the excess of consideration transferred over the net of the acquisition date fair value of assets acquired and liabilities assumed in a business acquisition. In accordance with ASC 350, goodwill and other intangible assets with indefinite lives are no longer subject to amortization. The Company reviews the goodwill and other intangible assets allocated to each of the Company's reporting units for impairment on an annual basis as of year-end or whenever events or changes in circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the carrying amount of a reporting unit is in excess of its fair value, the Company recognizes an impairment charge equal to the amount in excess.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The Company applies the guidance in Financial Accounting Standards Board (the "FASB") Accounting Standards Update ("ASU") 2011-08 "*Intangibles-Goodwill and Other-Testing Goodwill for Impairment* ," which provides entities with an option to perform a qualitative assessment (commonly referred to as "Step Zero") to determine whether further quantitative analysis for impairment of goodwill is necessary. In performing Step Zero for the Company's goodwill impairment test, the Company is required to make assumptions and judgments including but not limited to the following: the evaluation of macroeconomic conditions as related to the Company's business, industry and market trends, and the overall future financial performance of its reporting units and future opportunities in the markets in which they operate. If impairment indicators are present after performing Step Zero, the Company would perform a quantitative impairment analysis to estimate the fair value of goodwill.

During the years ended December 31, 2022 and 2021, the Company performed the Step Zero analysis for its goodwill impairment test. As a result of the Company's Step Zero analysis, no further quantitative impairment test was deemed necessary. There were no impairments of goodwill or intangible assets with indefinite lives for the years ended December 31, 2022 and 2021.

Impairment of Long-Lived Assets

For purposes of the impairment test, long-lived assets such as property, plant and equipment, and definite-lived intangible assets are grouped with other assets and liabilities at the lowest level for which identifiable independent cash flows are available ("asset group"). In accordance with ASC 360, "*Property, Plant, and Equipment*", the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The recoverability test (Step 1) compares the carrying amount of the asset to the sum of its future undiscounted cash flows using entity-specific assumptions generated through the asset's use and eventual disposition. If the carrying amount of the asset is less than the cash flows, the asset is recoverable and an impairment is not recorded. If the carrying amount of the asset is greater than the cash flows, the asset is not recoverable and an impairment loss calculation (Step 2) is required. The measurement of the impairment loss to be recognized is based on the difference between the fair value and the carrying value of the asset group. Fair value can be determined using a market approach, income approach or cost approach. The cash flow projection and fair value represents management's best estimate, using appropriate and customary assumptions, projections and methodologies at the date of evaluation. The reversal of impairment losses is prohibited.

Leased Assets

In accordance with ASU 2016-02, "*Leases (Topic 842)*" ("ASC 842"), the Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and accrued obligations under operating lease (current and non-current) liabilities in the Consolidated Balance Sheets. ROU assets for finance leases are included in property and equipment, net, and accrued current and non-current obligations are included in accounts payable and accrued liabilities and other non-current liabilities, respectively, in the Consolidated Balance Sheets. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and are expensed in the Consolidated Statements of Operations on a straight-line basis over the lease term.

ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets are classified as a finance lease or an operating lease. A finance lease is a lease in which at least one of the following is true: 1) ownership of the property transfers to the lessee by the end of the lease term; 2) the lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise; 3) the lease is for a major part of the remaining economic life of the underlying asset; 4) the present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already included in the lease payments equals or exceeds substantially all of the fair value; or 5) the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. The Company classifies a lease as an operating lease when it does not meet any one of these criteria.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The Company applies judgment in determining whether a contract contains a lease and if a lease is classified as an operating lease or a finance lease. The Company applies judgment in determining the lease term as the non-cancellable term of the lease, which may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. All relevant factors that create an economic incentive for it to exercise either the renewal or termination options are considered. The Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. The Company applies judgment in allocating the consideration in a contract between lease and non-lease components. It considers whether the Company can benefit from the ROU asset either on its own or together with other resources and whether the asset is highly dependent on or highly interrelated with another ROU asset.

In accordance with ASC 842, lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company applies judgment in determining the incremental borrowing rate using estimates which are based on the information available at commencement date. The Company initially measures the ROU asset at the initial amount of the lease liability, plus initial direct costs and lease payments at or before the commencement date, less any lease incentives received.

Additionally, management monitors for events or changes in circumstances that may require a reassessment of one of its leases and determine if a remeasurement is required.

Income Taxes

Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the Consolidated Balance Sheets. Effects of enacted tax law changes on deferred tax assets and liabilities are reflected as adjustments to tax expense in the period in which the law is enacted. Deferred tax assets may be reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized.

The Company follows accounting guidance issued by the FASB related to the application of accounting for uncertainty in income taxes. Under this guidance, the Company assesses the likelihood of the financial statement effect of a tax position that should be recognized when it is more likely than not that the position will be sustained upon examination by a taxing authority based on the technical merits of the tax position, circumstances, and information available as of the reporting date.

Convertible Instruments

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with ASC 815, *"Accounting for Derivative Instruments and Hedging Activities"* ("ASC 815"). ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free-standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value under otherwise applicable GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The Company also assesses convertible instruments under ASU 2020-06, " *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*", which simplifies the accounting for convertible instruments by eliminating the requirement to separate embedded conversion features from the host contract when the conversion features are not required to be accounted for as derivatives under ASC 815, or that do not result in substantial premiums accounted for as paid-in capital. By removing the separation model, a convertible debt instrument will be reported as a single liability instrument with no separate accounting for embedded conversion features. This new standard also removes certain settlement conditions that are required for contracts to qualify for equity classification and simplifies the diluted earnings per share calculations by requiring that an entity use the if-converted method and that the effect of potential share settlement be included in diluted earnings per share calculations. The Company also records, when necessary, deemed dividends for the intrinsic value of conversion options embedded in the Preferred Shares of GH Group based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. ASC 815 provides that generally, if an event that is not within the entity's control could require net cash settlement, then the contract shall be classified as an asset or a liability.

Derivative Liabilities

The Company evaluates its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the Consolidated Statements of Operations. In calculating the fair value of derivative liabilities, the Company uses a valuation model when Level 1 inputs are not available to estimate fair value at each reporting date. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the Consolidated Balance Sheets as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within twelve months of the Consolidated Balance Sheets dates. Critical estimates and assumptions used in the model are discussed in "*Note 13 - Derivative Liabilities*".

Business Combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition related transaction costs are expensed as incurred and included in the Consolidated Statements of Operations. Identifiable assets and liabilities, including intangible assets of acquired businesses, are recorded at their fair value at the date of acquisition. When the Company acquires control of a business, any previously held equity interest is also remeasured to fair value. The excess of the purchase consideration and any previously held equity interest over the fair value of identifiable net assets acquired is goodwill. If the fair value of identifiable net assets acquired exceeds the purchase consideration and any previously held equity interest, the difference is recognized in the Consolidated Statements of Operations immediately as a gain on acquisition. See *"Note 9 – Business Acquisitions"* for further details on business combinations.

Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. The Company allocates the total cost of the acquisition to the underlying net assets based on their respective estimated fair values. As part of this allocation process, the Company identifies and attributes values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding multiple, highly subjective variables, including those with respect to future cash flows, discount rates, asset lives, and the use of different valuation models, and therefore require considerable judgment. The Company's estimates and assumptions are based, in part, on the availability of listed market prices or other transparent market data. These determinations affect the amount of amortization expense recognized in future periods. The Company bases its fair value estimates on assumptions it believes to be reasonable but are inherently uncertain. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates, and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with ASC 450, *"Contingencies"*, as appropriate, with the corresponding gain or loss being recognized in earnings in accordance with ASC 805.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue Recognition

Revenue is recognized by the Company in accordance with ASC 606, " *Revenue from Contracts with Customers"* ("ASC 606"). Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. In order to recognize revenue under ASC 606, the Company applies the following five (5) steps:

(1) Identify a customer along with a corresponding contract;
(2) Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
(3) Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer;
(4) Allocate the transaction price to the performance obligation(s) in the contract; and
(5) Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenues consist of wholesale and consumer packaged goods ("CPG") and retail sales of cannabis, which are generally recognized at a point in time when control over the goods have been transferred to the customer and is recorded net of sales discounts. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy. During the years ended December 31, 2022 and 2021, sales discounts were approximately $10.7 million and $4.0 million, respectively.

Revenue is recognized upon the satisfaction of the performance obligations. The Company satisfies its performance obligations and transfers control upon delivery and acceptance by the customer.

Dispensary Revenue

The Company recognizes revenue from the sale of cannabis products for a fixed price upon delivery of goods to customers at the point of sale since at this time performance obligations are satisfied. Fees collected related to taxes that are required to be remitted to regulatory authorities are recorded as liabilities and are not included as a component of revenues.

Cultivation and Wholesale CPG

The Company recognizes revenue from the sale of cannabis products for a fixed price upon the shipment of cannabis goods as the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. The Company does not retain either continuing material involvement to the degree usually associated with ownership or effective control over the goods sold. Excise taxes due upon sale are recorded as an expense in the accompanying Consolidated Statements of Operations.

Cost of Goods Sold

Cost of goods sold includes the costs directly attributable to product sales and includes amounts paid for finished goods, such as flower, edibles and concentrates, packaging and other supplies, fees for services and processing, and allocated overhead, such as allocations of rent, administrative salaries, utilities and related costs. Cost of goods sold excludes depreciation and amortization.

General and Administrative Expenses

General and administrative expenses are comprised primarily of personnel costs, including salaries, incentive compensation, benefits, and share-based compensation, professional service costs, including legal, accounting, consulting and other professional fees, and corporate insurance and other facilities costs associated with the Company's corporate offices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-Based Compensation

The Company has an amended and restated equity incentive plan comprised of stock options ("Options"), unrestricted stock bonus, restricted stock units and stock appreciation rights (the "SARs"). Options provide the right to the purchase of one Equity Share per Option. RSUs provide the right to receive one Equity Share per unit (or cash payment equal to the fair market value of an Equity Share). The SARs provide the right to receive cash from the exercise of such right based on the increase in value between the exercise price and the fair market value of the Equity Shares of the Company at the time of exercise.

The Company accounts for its share-based awards in accordance with ASC 718, *"Compensation – Stock Compensation"*, which requires fair value measurement on the grant date and recognition of compensation expense for all share-based payment awards made to employees and directors, including restricted share awards. For stock options, the Company estimates the fair value using the Black-Scholes closed option valuation model. When there are market-related vesting conditions to the vesting term of the share-based compensation, the Company uses a valuation model to estimate the probability of the market-related vesting conditions being met and will record the expense. The fair value of restricted share awards is based upon the quoted market price of the Equity Shares on the date of grant. The fair value is then expensed over the requisite service periods of the awards, which is generally the performance period, and the related amount is recognized in the Consolidated Statements of Operations.

The fair value models require the input of certain assumptions that require the Company's judgment, including the expected term and the expected share price volatility of the underlying share. The assumptions used in calculating the fair value of share-based compensation represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change resulting in the use of different assumptions, share-based compensation expense could be materially different in the future. In addition, the Company elected not to estimate the expected forfeiture rate and only recognize expense for those shares that actually vest. If the actual forfeiture rate is materially different from management's estimates, the share-based compensation expense could be significantly different from what the Company has recorded in the current period.

Financial Instruments

Fair Value

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments. There have been no transfers between fair value levels during the years ended December 31, 2022 and 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments are measured at amortized cost or at fair value. Financial instruments measured at amortized cost consist of accounts receivable, other liabilities, and accounts payable and accrued liabilities wherein the carrying value approximates fair value due to its short-term nature. Other financial instruments measured at amortized cost include notes payable wherein the carrying value at the effective interest rate approximates fair value as the interest rate for such notes payable.

Cash and cash equivalents and restricted cash are measured at Level 1 inputs. Acquisition-related liabilities resulting from business combinations are measured at fair value using Level 1 or Level 3 inputs. Investments that are measured at fair value use Level 3 inputs. Refer to *"Note 6 – Investments"* for assumptions used to value investments. Derivative liabilities that are measured at fair value use Level 3 inputs. Refer to "*Note 13 – Derivative Liabilities*" for assumptions used to value the derivative liabilities. Refer to "*Note 14 – Contingent Shares and Earnout Liabilities*" for assumptions used to value the contingent consideration.

The individual fair values attributed to the different components of a financing transaction, notably derivative financial instruments, convertible debentures and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and derive estimates. Significant judgment is also used when attributing fair values to each component of a transaction upon initial recognition, measuring fair values for certain instruments on a recurring basis and disclosing the fair values of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of instruments that are not quoted or observable in an active market.

Impairment

The Company assesses all information available, including on a forward-looking basis, related to the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on available information, and forward-looking information that is reasonable and supportive. For accounts receivable only, the Company applies the simplified approach as permitted by ASU 2016-13, *"Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"*. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk. Rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable. Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Loss per Share

The Company calculates basic earnings or loss per share by dividing net earnings or loss by the weighted-average number of the Equity Shares (including the Exchangeable Shares, as defined herein, on an as-exchanged basis) outstanding during the period. Multiple Voting Shares, as defined herein, are excluded in calculating earnings or loss per share as they do not participate in earnings or losses. Diluted loss per share is the same as basic loss per share if the issuance of shares on the exercise of convertible debentures, contingent shares, warrants, restricted stock units and share options are anti-dilutive. Diluted earnings per share includes options, warrants, restricted stock units, and contingently issuable shares that are determined to be dilutive using the treasury stock method for all equity instruments issuable in equity units and the "if converted" method for the Company's convertible debentures. See *"Note 20 – Loss Per Share"* for further information.

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Notes to Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Recently Adopted Accounting Standards

In May 2021, the FASB issued ASU 2021-04, " *Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)"* ("ASU 2021-04"), which amends existing guidance for earnings per share (EPS) in accordance with Topic 260. ASU 2021-04 became effective for the Company beginning January 1, 2022. This update should be applied prospectively on or after the effective date of the amendments. The Company adopted ASU 2021-04 on January 1, 2022. The adoption of the standard did not have a material impact on the Company's Consolidated Financial Statements.

Recently Issued Accounting Standards

In March 2020, the FASB issued ASU 2020-04, " *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*" ("ASU 2020-04"), which provides optional expedients and exceptions for applying GAAP to debt instruments, derivatives, and other contracts that reference London Interbank Offered Rate ("LIBOR") or other reference rates expected to be discontinued as a result of reference rate reform. This guidance is optional and may be elected through December 31, 2022 using a prospective application on all eligible contract modifications. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to instruments affected by reference rate reform if certain criteria are met. The Company did not modify any material contracts due to reference rate reform during the year ended December 31, 2022. The Company is currently evaluating the impact, if any, the adoption of this accounting standard will have on its financial position and results of operations.

In October 2021, the FASB issued ASU 2021-08, " *Business Combinations (Subtopic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers"* ("ASU 2021-08"), which is intended to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to the recognition of an acquired contract liability and the effect of payment terms on subsequent revenue recognized. ASU 2021-08 became effective for the Company beginning January 1, 2023. This update should be applied prospectively on or after the effective date of the amendments. The Company is currently evaluating the effect of adopting this accounting standard.

On March 31, 2022, the FASB issued ASU 2022-02, *"Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures"* ("ASU 2022-02"), which eliminates the accounting guidance on troubled debt restructurings for creditors and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. ASU 2022-02 also updates the requirements related to accounting for credit losses under the current guidance and adds enhanced disclosures for creditors with respect to loan refinancing and restructuring for borrowers experiencing financial difficulty. ASU 2022-02 became effective for the Company beginning January 1, 2023. The Company is currently evaluating the effect of adopting this accounting standard.

3. CONCENTRATIONS OF BUSINESS AND CREDIT RISK

The Company maintains cash balances at its physical locations, which are not currently insured, and with various U.S. banks and credit unions with balances in excess of the Federal Deposit Insurance Corporation and National Credit Union Share Insurance Fund limits, respectively. The failure of a bank or credit union where the Company has significant deposits could result in a loss of a portion of such cash balances in excess of the insured limit, which could materially and adversely affect the Company's business, financial condition and results of operations. As of December 31, 2022 and 2021, the Company has not experienced any losses with regards to its cash balances.

The Company provides certain credit terms in the normal course of business to customers located throughout California. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other information. There were two (2022) and one (2021) customer(s) for the year ended December 31, 2022 and 2021, respectively, that comprised 36% and 29%, respectively, of the Company's revenues. As of December 31, 2022 and 2021, these same customers had a balance due to the Company of $5,240,179 and $2,403,097, respectively.

GLASS HOUSE BRANDS INC.
Notes to Consolidated Financial Statements
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4. INVENTORY

As of December 31, 2022 and 2021, inventory consists of the following:

	2022	2021
Raw Materials	$ 3,270,597	$ 1,325,590
Work-in-Process	4,428,440	2,777,244
Finished Goods	4,358,533	2,493,468
Total Inventory	**$ 12,057,570**	**$ 6,596,302**

5. NOTES RECEIVABLE

On May 12, 2022, the Company announced it executed definitive agreements (the "Agreements") to acquire 100% of the equity interests in certain Natural Healing Center-branded and operated retail dispensaries. See "*Note 9 – Business Acquisitions*" for further information on the business combinations completed during the year ended December 31, 2022. As a result, the Company reclassified $5,461,255 of the note receivable previously issued as consideration for the purchase of Natural Healing Center, LLC. As of December 31, 2022, three acquisitions related to the Natural Healing Center-branded and operated retail dispensaries (Natural Healing Center, LLC., NHC Lemoore, LLC and NHC-MB LLC) have closed and one retail dispensary located in Turlock, California, is under construction and is expected to close in 2023. Calculation and payment of consideration for the acquisition of the Turlock dispensary will occur at the end of its sixth full quarter of operations, at six times its annualized EBITDA in that quarter. The consideration will be paid 80% in stock priced at the 25-day volume-weighted average price ("VWAP") of the Equity Shares as of that quarter end and 20% in the form of an unsecured, subordinated promissory note bearing interest of 8% annually and maturing after the four-year anniversary of the closing date.

The Company was issued senior secured promissory notes (the "Notes") in conjunction with the Agreements. The Notes have an interest rate of 15% per annum with outstanding principal balance and accrued interest to be paid in full in cash 180 days following the closing of the plan of merger of Natural Healing Center, LLC, unless prepaid in whole or in part upon the closing of the transactions contemplated by the Agreements, as against the Merger Consideration (as defined in the Agreements). As of December 31, 2022 and 2021, the notes receivable balance is $1,255,843 and nil, respectively, and the Notes are included as Notes Receivable in the Consolidated Balance Sheets.

6. INVESTMENTS

The Company has various investments in entities in which it holds a significant but non-controlling interest through voting equity or through representation on the entities' board of directors or equivalent governing bodies. Accordingly, the Company was deemed to have significant influence resulting in the Company accounting for these investments under the equity method.

On August 17, 2022, the Company, through its subsidiary, 5042 Venice, LLC, closed on the sale of the 50% held undivided tenancy-in-common interest in its equity method investment (the "TIC Interest"). As part of the transaction, the Company no longer has an equity interest in the TIC Interest. However, the Company became the manager of 5042 Real Estate Investment LLC which acquired 42.93% of the TIC Interest and the remaining 7.07% was acquired by a related party to senior management of the Company.

GLASS HOUSE BRANDS INC.
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6. INVESTMENTS *(Continued)*

On July 28, 2022, the Company acquired the remaining equity and property ownership interests of N.R.O Management, LLC and The Pottery, a retail dispensary located in Los Angeles, California. See "*Note 9 – Business Acquisitions*" for further discussion. During the year ended December 31, 2022, the Company recorded the difference of the book value and the fair value of the equity method investment as of the acquisition date as a loss from equity method investments of $745,072.

	LOB Group, Inc.	N.R.O Management, LLC	SoCal Hemp JV, LLC	ICANN, LLC	5042 Venice, LLC	5042 Real Estate Investment, LLC	Lompoc TIC, LLC	TOTAL
Fair Value as of December 31, 2020	**$ 2,809,412**	**$ 2,336,713**	**$ 1,058,778**	**$ 2,045,309**	**$ 2,222,695**	**$ —**	**$ 228,961**	**$10,701,868**
Additions	—	—	701,254	—	—	—	86,248	787,502
Distribution	—	—	—	—	(243,880)	—	(96,900)	(340,780)
Reclass of Investment for Acquisition	—	—	—	(2,045,309)	—	—	—	(2,045,309)
Impairment	—	—	(817,875)	—	—	—	—	(817,875)
(Loss) Gain on Equity Method Investments	(48,271)	(317,764)	(942,157)	—	242,705	—	(23,560)	(1,089,047)
Fair Value as of December 31, 2021	**$ 2,761,141**	**$ 2,018,949**	**$ —**	**$ —**	**$ 2,221,520**	**$ —**	**$ 194,749**	**$ 7,196,359**
Additions	—	300,000	213,000	—	343	2,445,000	—	2,958,343
Distributions	—	—	—	—	(3,001,871)	—	—	(3,001,871)
Acquisition of Equity Method Investment	—	(900,000)	—	—	—	—	—	(900,000)
(Loss) Gain on Equity Method Investments	(457,671)	(1,418,949)	(213,000)	—	780,008	(665,401)	(31,626)	(2,006,639)
Fair Value as of December 31, 2022	**$ 2,303,470**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 1,779,599**	**$ 163,122**	**$ 4,246,192**

During the years ended December 31, 2022 and 2021, the Company recorded net losses from equity method investments of $2,006,639 and $1,089,047, respectively. These investments are recorded at the amount of the Company's initial investment and adjusted for the Company's share of the investee's income or loss and dividends paid. During the fourth quarter of the year ended December 31, 2021, the Company recognized $817,875 of other than temporary impairment as a result of the investee ceasing operations. The Company determined that the fair value of its investment in SoCal Hemp JV, LLC was nil as of December 31, 2021.

7. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2022 and 2021, property, plant and equipment consist of the following:

	2022	2021
Land	$ 70,888,383	$ 70,782,068
Buildings	140,042,534	108,024,254
Finance Leases	301,022	—
Furniture and Fixtures	471,696	316,395
Leasehold Improvements	10,927,265	8,412,489
Equipment and Software	8,050,827	5,712,519
Construction in Progress	6,447,286	11,867,167
Total Property, Plant and Equipment	237,129,013	205,114,892
Less Accumulated Depreciation and Amortization	(20,412,118)	(9,316,368)
Property, Plant and Equipment, Net	**$216,716,895**	**$195,798,524**

7. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

During the years ended December 31, 2022 and 2021, the Company recorded depreciation expense of $ 11,323,468 and $4,597,229, respectively. The amount of depreciation recognized for finance leases during the years ended December 31, 2022 and 2021 was $15,051 and nil, respectively, see "Note 15 – Leases" for further information. Additionally, during the year ended December 31, 2022 and 2021, the Company capitalized interest to property and equipment of $1,043,392 and nil, respectively.

During the year ended December 31, 2021, the Company entered into a third amendment to its acquisition agreement (the "Camarillo Acquisition Agreement") regarding the purchase of certain real property in Camarillo, California. The purchase price was amended to $93,000,000, payable in cash. The Company further entered into a fourth amendment to the Camarillo Acquisition Agreement in which certain fixed assets in the amount of $110,000 were added to the net assets acquired and consideration to be credited to the sellers at closing. In addition, the parties agreed to afford the sellers more time to obtain terminations to UCC-1 financing statements with respect to certain personal property conveyed as part of the asset acquisition. The Company paid the total cash purchase price upon closing on September 14, 2021 (the "Camarillo Closing Date"). The asset acquisition was accounted for in accordance with ASC 805-50, *"Acquisition of Assets Rather than a Business"*. As consideration for the assignment of the option rights to purchase certain real property in conjunction with the Camarillo Acquisition Agreement (the "Option Right"), the Company issued 6,500,000 Equity Shares to the original option holder with an aggregate value of $29,250,000 on the Camarillo Closing Date. In addition to the Equity Shares issued for the Option Right on the Camarillo Closing Date, the Company is obligated to issue up to an additional 3,500,000 Equity Shares to the original option holder as a contingent payment, and a potential earnout fee of up to $75,000,000 payable to the original option holder in Equity Shares, if certain conditions and financial metrics are met, see *"Note 14 – Contingent Shares and Earnout Liabilities"* for further information.

The following is a summary of the total consideration paid in the above transaction:

Cash Payments	$ 93,000,000
Survey and Other Fees	262,875
Shares Issued for the Purchase of Real Property	29,250,000
Fair Value of Contingent Consideration	14,973,000
Fair Value of Earn Out Payments	19,847,000
Total Consideration in the Camarillo Transaction	**$ 157,332,875**

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8. DISPOSITION OF SUBSIDARY

On March 3, 2021, the Company entered into an agreement to assign all of its limited liability company membership interests in Field Investment Co. LLC ("Field Investment Co."), a Company subsidiary, and Field Investment Co.'s subsidiaries, Field Taste Matters, Inc., ATES Enterprises, LLC, and Zero One Seven Management, LLC, for de minimis consideration to an unrelated third party. On the same day, the Company immediately divested itself of Field Investment Co. and recognized a loss on disposition of a subsidiary in the amount of $6,090,337 for the year ended December 31, 2021. The subsidiary disposed of does not qualify as a discontinued operation in accordance with ASC 205 *"Discontinued Operations"*.

The net assets of the subsidiary that was disposed of consists of the following:

ASSETS:	
Accounts Receivable, Net	$ 21,067
Prepaid Expenses and Other Current Assets	430,654
Operating Lease Right-of-Use Assets, Net	976,417
Property, Plant and Equipment, Net	310,501
Intangible Assets, Net	3,727,500
Goodwill	2,095,918
Other Assets	95,419
TOTAL ASSETS	**$ 7,657,476**
LIABILITIES:	
Accounts Payable and Accrued Liabilities	$ 473,500
Operating Lease Liabilities	1,051,588
Notes Payable	42,051
TOTAL LIABILITIES	**$ 1,567,139**
NET ASSETS DISPOSED	**$ 6,090,337**

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9. BUSINESS ACQUISITIONS

The purchase price allocations for the business acquisitions completed during the year ended December 31, 2022, as set forth in the table below, reflect various preliminary fair value estimates and analyses that are subject to change within the measurement period as valuations are finalized. The primary areas of the preliminary purchase price allocations that are not yet finalized relate to the tax impact of the acquisitions, fair values of certain tangible assets, the valuation of intangible assets acquired and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition dates during the measurement periods. Measurement period adjustments that the Company determines to be material will be applied in the period the adjustment is determined to the acquisitions in the Company's consolidated financial statements, and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could be affected. The acquisitions noted below were accounted for in accordance with ASC 805 "Business Combinations".

The preliminary (2022) allocation of purchase prices of business acquisitions completed during the year ended December 31, 2022 and summary of allocation of purchase price of the business acquisition completed during the year ended December 31, 2021 are as follows:

	2022 Acquisitions						2021 Acquisition
	Plus Products Holding Inc.	The Pottery, Inc.	Natural Healing Center, LLC	NHC Lemoore, LLC	NHC-MB, LLC	Total	iCANN, LLC
Closing Date:	*April 28, 2022*	*July 28, 2022*	*September 6, 2022*	*September 6, 2022*	*September 14, 2022*		*January 1, 2021*
Total Consideration							
Convertible Debenture Notes	$ 16,257,104	$ —	$ —	$ —	$ —	$ 16,257,104	$ —
Restricted Stock Units Issued	188,122	—	—	—	—	188,122	—
Derivative Asset	(251,020)	—	—	—	—	(251,020)	—
Contingent Restricted Stock Units	5,460,000	—	—	—	—	5,460,000	—
Fair Value of Equity Issued	9,707,414	1,100,000	5,938,298	3,272,515	5,248,569	25,266,796	3,380,278
Shares Payable	—	—	2,262,000	1,274,000	1,933,000	5,469,000	—
Fair Value of Remaining 50% equity interest	—	900,000	—	—	—	900,000	—
Cash Payment	—	—	590,795	1,642,522	305,427	2,538,744	442,956
Loan Forgiveness	—	—	5,461,257	—	—	5,461,257	—
Equity Investment Converted	—	—	—	—	—	—	2,045,309
Assumption of IRS Debt	—	—	6,753,499	—	—	6,753,499	—
Total Consideration	**$ 31,361,620**	**$ 2,000,000**	**$ 21,005,849**	**$ 6,189,037**	**$ 7,486,996**	**$ 68,043,502**	**$ 5,868,543**
Net Assets Acquired (Liabilities Assumed)							
Current Assets [3]	$ 6,454,308	$ 382,436	$ 4,146,644	$ 147,259	$ 468,585	$ 11,599,232	$ 562,221
Operating Right-of-Use Asset	294,159	3,671,969	992,717	991,606	772,647	6,723,098	1,160,730
Property, Plant and Equipment	789,779	37,201	273,679	1,788,166	—	2,888,825	692,645
Non-Current Assets	93,662	3,500	—	—	—	97,162	—
Deferred Tax Assets, Net	—	—	—	—	—	—	(209,466)
Current Liabilities Assumed	(1,339,301)	(2,854,242)	(2,496,552)	(706,487)	(655,334)	(8,051,916)	(922,745)
Long-Term Liabilities Assumed	(111,970)	(3,671,969)	(832,060)	(833,989)	(652,654)	(6,102,642)	(1,113,584)
Intangible Assets:							
Intellectual Property	5,100,000	400,000	1,100,000	300,000	600,000	7,500,000	600,000
Customer Relationship	2,600,000	—	—	—	—	2,600,000	—
Cannabis License	12,900,000	2,900,000	12,000,000	1,000,000	5,100,000	33,900,000	2,900,000
Total Intangible Assets	20,600,000	3,300,000	13,100,000	1,300,000	5,700,000	44,000,000	3,500,000
Total Identifiable Net Assets Acquired (Net Liabilities Assumed)	26,780,637	868,895	15,184,428	2,686,555	5,633,244	51,153,759	3,669,801
Goodwill [1]	4,580,983	1,131,105	5,821,421	3,502,482	1,853,752	16,889,743	2,198,742
Total Net Assets Acquired	**$ 31,361,620**	**$ 2,000,000**	**$ 21,005,849**	**$ 6,189,037**	**$ 7,486,996**	**$ 68,043,502**	**$ 5,868,543**
	$ 4,877,839	*$ 1,070,380*	*$ 3,468,548*	*$ 1,231,088*	*$ 1,912,771*	*$ 12,560,626*	*$ 6,819,012*
Revenues from Acquisition							
Net Income (Loss) from Acquisition	*$ (101,022)*	*$ (455,603)*	*$ 925,110*	*$ (147,801)*	*$ 443,972*	*$ 664,656*	*$ 60,834*
Pro Forma Revenues [2]	*$ 3,911,580*	*$ 2,110,084*	*$ 8,158,053*	*$ 3,889,361*	*$ 4,647,797*	*$ 22,716,875*	*n/a*
Pro Forma Net Income (Loss) [2]	*$ 1,067,848*	*$ (1,287,036)*	*$ 551,711*	*$ (231,069)*	*$ 289,561*	*$ 391,015*	*n/a*

(1) Goodwill arising from acquisitions represent expected synergies, future income and growth, and other intangibles that do not qualify for separate recognition. Generally, goodwill related to dispensaries acquired within a state adds to the footprint of the Company's dispensaries within the state, giving the Company's customers more access to the Company's branded stores. Goodwill related to cultivation and wholesale acquisitions provide for lower costs and synergies of the Company's growing and wholesale distribution methods which allow for overall lower costs.

(2) If the 2022 acquisitions had been completed on January 1, 2022, the Company estimates it would have recorded changes in revenues and changes in net (losses) income shown in the pro forma amounts noted above. As the 2021 acquisition was completed on January 1, 2021, no pro forma information is required.

(3) Included in current assets acquired in the business combination was cash acquired, accounts receivable, other current assets and inventory as of the acquisition date.

9. BUSINESS ACQUISITIONS *(Continued)*

On January 1, 2021, the Company completed an acquisition of 100% of the equity interests of iCANN, LLC dba Farmacy Berkeley ("iCANN"), a licensed retail cannabis company located in Berkeley, California. Pursuant to the terms of the merger agreement between a subsidiary of the Company and iCANN, the following occurred: (i) the Company elected to convert an earlier issued convertible note with an unpaid principal amount of $2,000,000 and accrued interest of $ 45,309 into equity interests of iCANN; (ii) the Company paid $400,000 in cash to four founder-holders of iCANN equity interests: (iii) the Company issued 7,511,725 shares of Class A Common Stock of GH Group (which were ultimately exchanged for 731,369 Exchangeable Shares) to holders of iCANN equity interests; and (iv) $42,956 in cash to the remaining holders of iCANN equity interests who were not accredited investors. In addition, during the year ended December 31, 2021, the Company granted 48,682 Exchangeable Shares to various brokers and consultants as finders' fees and recorded $225,000 in share-based compensation.

On April 28, 2022, the Company completed an acquisition of 100% of the equity interests in Plus Products Holdings, Inc. ("Plus Products"), a leading cannabis edibles company located in California. Pursuant to the terms of the acquisition agreement, the preliminary purchase price is for an aggregate consideration of $31,361,620 and is comprised of the following: (i) 20,005 unsecured convertible debenture notes, of which 8,003 may be issued in the form of alternative convertible debenture notes (see *"Note 16 – Notes Payable and Convertible Debentures"* for further information), (ii) 2,102,578 Equity Shares, (iii) 208,635 Equity Shares granted pro-rata upon closing to exempt grantees (the "Incentive Shares"), (iv) 44,751 RSUs granted pro-rata upon closing which fully vested on May 30, 2022 and settled in the Company's Equity Shares (the"Incentive RSUs") and (v) 1,300,000 RSUs contingent on revenue earnout provisions. In addition, the Company granted 450,000 RSUs (the "Retention RSUs") to certain Plus Products employees which will vest 33% one year after the grant date and the remaining 67% vest in eight equal quarterly installments following the grant date. The fair value of the Retention RSUs, or $1,890,000, was recognized as a component of equity with expense subsequently recognized over the vesting period.

On July 28, 2022, the Company acquired the remaining equity and other ownership interests of N.R.O Management, LLC and The Pottery, a retail dispensary located in Los Angeles, California. The Company previously owned 50% of the equity and other ownership interests prior to July 28, 2022. The preliminary purchase price is for an aggregate consideration of $2,000,000 and is comprised of the following: (i) 500,000 Equity Shares of the Company and (ii) the fair value of the remaining 50% of the equity interests held. The shares will have a one-year lock-up period through July 28, 2023. As of the date of the acquisition, the total fair value of the equity shares was determined to be $1,100,000, or approximately $ 2.20 per share. The fair value of the remaining 50% equity interests was determined to be $ 900,000 using the income approach based on Level 3 inputs on the fair value hierarchy framework. In addition, the Company, or its designee, had the option of acquiring all the remaining undivided ownership interests in the underlying real property for $3,000,000, in cash. The Company elected not to acquire the remaining undivided ownership interests of the underlying real property.

On September 7, 2022, the Company completed the acquisition of Natural Healing Center, LLC. ("Grover Beach"), a retail dispensary located in Grover Beach, California, through GHG-NHC Grover Inc., a wholly owned subsidiary of the Company. Pursuant to the terms of the merger agreement, the preliminary purchase price is for an aggregate consideration of $21,005,849, and is comprised of the following: (i) $ 5,938,298 fair value of the Equity Shares of the Company and $ 2,262,000 fair value of deferred Equity Shares payable, (ii) cash payment, (iii) loan forgiveness and (iv) assumption of certain IRS debt. The Equity Shares issued were paid upon closing with fair value determined as the closing price of the Company's stock as of September 7, 2022. The deferred Equity Shares payable are to be issued upon the earlier of: 1) the sixth calendar quarter following the opening of NHC Turlock, LLC ("Turlock") or 2) September 7, 2024. As of the date of the issuance of these financial statements, the merger of Turlock has not closed.

On September 7, 2022, the Company completed the acquisition of NHC Lemoore, LLC ("Lemoore"), a retail dispensary located in Lemoore, California, through GHG-NHC Lemoore Inc., a wholly owned subsidiary of the Company. Pursuant to the terms of the merger agreement, the preliminary purchase price is for an aggregate consideration of $6,189,037, and is comprised of the following: (i) $3,272,515 fair value of the Equity Shares of the Company and $ 1,274,000 fair value of deferred Equity Shares and (ii) a cash payment. The Equity Shares issued were paid upon closing with fair value determined as the closing price of the Company's stock as of September 7, 2022. The deferred Equity Shares payable are to be issued upon the earlier of: 1) the sixth calendar quarter following the opening of Turlock or 2) September 7, 2024.

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9. BUSINESS ACQUISITIONS *(Continued)*

On September 14, 2022, the Company completed the acquisition of NHC-MB LLC ("Morro Bay"), a retail dispensary in Morro Bay, California, through GHG-NHC Morro Inc., a wholly owned subsidiary of the Company. Pursuant to the terms of the merger agreement, the preliminary purchase price is for an aggregate consideration of $7,486,996, and is comprised of the following: (i) $5,248,569 fair value of the Equity Shares of the Company and $ 1,933,000 fair value of deferred Equity Shares and (ii) a cash payment. 80% of the Equity Shares issued were paid upon closing with fair value determined as the closing price of the Company's stock as of September 14, 2022. The deferred Equity Shares payable are to be issued upon the earlier of: 1) the sixth calendar quarter following the opening of Turlock or 2) September 14, 2024. The full value of the Equity Shares issued were accounted as consideration and included as a component of shares payable in the accompanying Consolidated Balance Sheets.

10. INTANGIBLE ASSETS

As of December 31, 2022 and 2021, intangible assets consist of the following:

	2022	2021
Definite Lived Intangible Assets		
Customer Relationships	$ 2,600,000	$ —
Intellectual Property	8,290,000	790,000
Total Definite Lived Intangible Assets	10,890,000	790,000
Less Accumulated Amortization	(1,186,665)	(208,667)
Definite Lived Intangible Assets, Net	**9,703,335**	**581,333**
Indefinite Lived Intangible Assets		
Dispensary Licenses	38,948,500	5,048,500
Total Indefinite Lived Intangible Assets	38,948,500	5,048,500
Total Intangible Assets, Net	**$48,651,835**	**$5,629,833**

The Company adjusted the calculation of the preliminary fair values of the intangible assets acquired in business acquisitions completed during the year ended December 31, 2022, which resulted in aggregate increase of $1,800,000 to the carrying value of these intangible assets within the measurement period (see Note 9, Business Acquisitions, and Note 11, Goodwill).

For the year ended December 31, 2022 and 2021, the Company recorded amortization expense related to intangible assets of $977,998 and $170,167, respectively. Additionally, during the years ended December 31, 2022 and 2021, management noted no indications of impairment on its intangible assets.

The following is the future minimum amortization expense to be recognized for the years ended December 31:

December 31:	
2023	1,668,000
2024	1,655,333
2025	1,630,000
2026	1,510,000
2027	1,030,002
Thereafter	2,210,000
Total Future Amortization Expense	$ 9,703,335

11. GOODWILL

As of December 31, 2022 and 2021, goodwill was $ 21,808,566 and $4,918,823, respectively. See "*Note 8 – Disposition of Subsidiary*" and "*Note 9 – Business Acquisitions*" for further information. During the year ended December 31, 2022, the Company adjusted the intangible asset values related to the acquisitions during 2022 as a result of additional valuation information obtained, which resulted in an increase to the carrying value of goodwill equal to $415,965.

During the year ended December 31, 2022, the Company made prospective adjustments to the purchase price allocations associated with previously acquired entities that resulted in changes to goodwill. The Company obtained additional information about the facts and circumstances that existed at the time of the acquisition that resulted in changes in the provisional amounts recognized.

Goodwill is assigned to the reporting unit, which is the operating segment level or one level below the operating segment. Goodwill arises when the purchase price for acquired businesses exceeds the fair value of tangible and intangible assets acquired less assumed liabilities. Goodwill is reviewed annually for impairment or more frequently if impairment indicators arise. The goodwill impairment test compares the fair value of a reporting unit with its carrying amount. The amount by which the carrying amount exceeds the reporting unit's fair value is recognized as a goodwill impairment loss. The Company conducts its annual goodwill impairment assessment as of the last day of the fiscal year. During the years ended December 31, 2022 and 2021, management noted no indications of impairment on its goodwill.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As of December 31, 2022 and 2021, accounts payable and accrued liabilities consist of the following:

	2022	2021
Accounts Payable	$ 6,869,941	$ 4,777,435
Accrued Liabilities	12,183,677	2,418,664
Accrued Payroll and Related Liabilities	2,009,598	1,699,253
Sales Tax and Cannabis Taxes	1,270,572	1,319,652
Total Accounts Payable and Accrued Liabilities	**$22,333,788**	**$10,215,004**

The Company offers a customer loyalty rewards program that allows members to earn discounts on future purchases. Unused discounts earned by loyalty rewards program members are included in accrued liabilities and recorded as a sales discount at the time a qualifying purchase is made. The value of points accrued as of December 31, 2022 and 2021, was approximately $999,000 and $380,000, respectively.

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13. DERIVATIVE LIABILITIES

During the year ended December 31, 2021, the Company issued convertible debt to third parties and related parties, see *"Note 16 – Notes Payable and Convertible Debentures"* and *"Note 17 – Notes Payable – Related Parties"*, respectively. Upon the analysis of the conversion feature of the convertible debt under ASC 815, the Company determined that the conversion features are to be accounted for as derivative liabilities. The Company valued the conversion feature using the Binomial Lattice Model using the following Level 3 inputs:

	2021*
Weighted-Average Risk Free Annual Rate	0.25 %
Weighted-Average Average Probability at Maturity	0.00 %
Weighted-Average Average Probability Before Maturity	100.00 %
Weighted-Average Average Probability at Change of Control	0.00 %
Weighted-Average Expected Annual Dividend Yield	0.0 %
Weighted-Average Expected Stock Price Volatility	0.0 %
Weighted-Average Expected Life in Years	—

* Represents inputs immediately prior to the conversion on June 29, 2021

13. DERIVATIVE LIABILITIES *(Continued)*

A reconciliation of the beginning and ending balance of derivative liabilities and change in fair value of derivative liabilities for the year ended December 31, 2021 is as follows:

	2021
Balance at Beginning of Year	**$ 7,365,000**
Derivative Liability Incurred Upon Issuance of Convertible Debt	182,000
Change in Fair Value	(825,000)
Reclassed to Equity Upon Conversion of Debt	(6,722,000)
Balance at End of Year	**$ —**

Derivative liabilities are included in current liabilities as the holders of the convertible notes can convert at any time.

During the year ended December 31, 2021, GH Group converted all its convertible debt with derivative conversion features to the Preferred Shares. As a result, the Company recorded adjustments to the fair value of the derivative through the date of conversion. The remaining derivative balance was reclassified to shareholders' equity upon conversion of the related convertible debt. See *"Note 16 – Notes Payable and Convertible Debentures"* and *"Note 17 – Notes Payable – Related Parties"* for further information. It is management's view that conversions of debt with bifurcated conversion features that are deemed derivatives should be accounted under the conversion accounting model. As a result of the conversion of debt and relief of the derivative conversion feature, the Company recognized no loss on extinguishment of debt or additional amortization of debt discount as the conversion of the debt was executed under the original terms of the agreement as required under ASC 470 "*Debt*".

14. CONTINGENT SHARES AND EARNOUT LIABILITIES

	2022	2021
Balance at Beginning of Year	$ 38,428,700	$ —
Contingent Shares Issued Upon Closing of Business Combination	5,460,000 **(iv)**	7,640,334 **(i)**
Contingent Earnout Issued for Option Right	—	19,847,000 **(ii)**
Contingent Shares Issued for Option Right	—	14,973,000 **(iii)**
Change in Fair Value of Contingent Liabilities	(29,232,034)	(4,031,634)
Balance at End of Year	**$ 14,656,666**	**$38,428,700**

(i) Contingent Earnout – Business Combination on June 29, 2021

Upon closing of the Business Combination, 1,008,975 Equity Shares issued to the sponsor of Mercer Park were locked up by the Company. These Equity Shares are to be released from the lock-up restrictions based upon the amount of cash raised by the Company from certain debt and equity financings through June 2023. During the year ended December 31, 2021, the Company released 392,819 Equity Shares that were originally subject to lock-up restrictions. In accordance with ASC 480, "*Distinguishing Liabilities from Equity*" ("ASC 480"), management determined the provisions of these earnouts required liability treatment. Accordingly, the remaining 616,156 Equity Shares are subject to a capital-based earnout of permitted debt or equity financings within one year following closing, as further detailed in the Investor Rights Agreement entered into on June 29, 2021 in connection with the completion of the Business Combination (which is available on SEDAR at www.sedar.com). As of December 31, 2022 and 2021, the value of the contingent earnout was $1,207,666 and $2,372,200, respectively, and included as a component of contingent shares and earnout liabilities in the accompanying Consolidated Balance Sheets. The decreases in fair value of $1,164,534 and $5,268,134 were recorded as components of the change in fair value of contingent liabilities during the years ended December 31, 2022 and 2021, respectively, and are included in the accompanying Consolidated Statements of Operations.

14. CONTINGENT SHARES AND EARNOUT LIABILITIES *(Continued)*

Additional earnout payments consisting of up to an additional 6,306,095 Equity Shares are issuable to the previous sponsor of Mercer Park and all holders of record of the Equity Shares, the Exchangeable Shares, vested stock options and vested RSUs as of December 31, 2022 in the event the 20-day VWAP of the Equity Shares reaches $13.00 or $15.00 within two years of closing of the Business Combination. In the event that the permitted debt or equity raised by the Company and the Equity Share price targets are not met, as described in the Investor Rights Agreement, the earnout payments will be forfeited. In accordance with ASC 480, management determined the provisions of these earnouts did not require liability treatment. As of December 31, 2022 and 2021, no Equity Shares were issued in connection with these earnouts.

(ii) Contingent Earnout – Camarillo Transaction

During the year ended December 31, 2021, the Company purchased certain real property in Camarillo, California (the "Camarillo Transaction"). As a consideration for the option right to purchase certain real property in conjunction with the Camarillo Transaction (the "Option Right"), the Company is obligated to pay a contingent earnout fee of up to $75,000,000, payable in the Equity Shares, if certain conditions and financial metrics are met. As of December 31, 2022 and 2021, the fair value of the contingent earnout was $4,041,000 and $22,571,000, respectively, and included as a component of contingent shares and earnout liabilities in the accompanying Consolidated Balance Sheets. The decrease in fair value of $18,530,000 and increase in fair value $2,724,000 were recorded as components of the change in fair value of contingent liabilities during the years ended December 31, 2022 and 2021, respectively, and is included in the accompanying Consolidated Statements of Operations. The value of the contingent consideration is based upon the potential earn-out of the facilities' adjusted earnings during the earnout period and is measured at fair value using a discounted cash flow model that is based on unobservable inputs.

(iii) Contingent Shares – Camarillo Transaction

As additional consideration for the Option Right, the Company issued 6,500,000 Equity Shares upon the closing of the Camarillo Transaction. The Company allocated the fair value of the Option Right to the assets acquired upon its exercise in September 2021. In addition to the Equity Shares issued for the Option Right, the Company is obligated to issue up to 3,500,000 Equity Shares as a contingent payment, which are subject to certain conditions and events following closing. As of December 31, 2022 and 2021, the fair value of the contingent payment was $6,860,000 and $13,485,500, respectively, and included as a component in contingent shares and earnout liabilities in the accompanying Consolidated Balance Sheets. The Company recorded decreases in fair value of $6,625,500 and $1,487,500 during the years ended December 31, 2022 and 2021, respectively, and were included as components of the change in fair value of contingent liabilities in the accompanying Consolidated Statements of Operations. The value of the contingent consideration is based upon the value of the Company's Equity Shares, the probability of future events occurring and other unobservable inputs.

(iv) Contingent RSUs – Plus Products

As consideration for the acquisition of Plus Products, see *"Note 9 – Business Acquisitions"* for further details, the Company issued 1,300,000 RSUs contingent on revenue earnout provisions. The Company allocated the fair value of the contingent RSUs to the net assets acquired upon the closing of the transaction in April 2022. As of December 31, 2022 and 2021, the fair value of the contingent RSUs was $2,548,000 and nil, respectively, and included as a component in contingent shares and earnout liabilities in the accompanying Consolidated Balance Sheets. The Company recorded a decrease in fair value of $2,912,000 and nil, respectively, during the years ended December 31, 2022 and 2021, and it was included as a component of change in fair value of contingent liabilities in the accompanying Consolidated Statements of Operations. The value of the contingent consideration is based upon the value of the Company's Equity Shares, the probability of future events occurring and other unobservable inputs.

GLASS HOUSE BRANDS INC.
Notes to Consolidated Financial Statements
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15. LEASES

The Company leases buildings which it plans to use for corporate purposes and the production and sale of cannabis products. In accordance with ASC 842, lease liability is initially measured at the present value of total lease payments, discounted using a discount rate set to the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company uses an estimated incremental borrowing rate. Total lease payments are comprised of (i) fixed lease payments less any incentives; (ii) variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; (iii) the amount expected to be payable by the lessee under residual value guarantees; (iv) the exercise of purchase options, if the lessee is reasonably certain to exercise the options; (v) payments of penalties for early termination of a lease unless the Company is reasonably certain not to terminate early. The incremental borrowing rate is determined using estimates which are based on the information available at commencement date.

An ROU asset is measured at the initial amount of the lease liability, plus initial direct costs and lease payments at or before the commencement date, less any lease incentives received.

Operating leases may contain renewal options that provide for rent increases based on prevailing market conditions. The terms used to calculate the ROU assets for these properties include the renewal options that the Company is reasonably certain to exercise. Both ROU assets and lease liabilities exclude variable payments not based on an index or rate, which are treated as period costs. The Company's lease agreements do not contain significant residual value guarantees, restrictions or covenants. For finance leases, lease costs are comprised of straight-line amortization of the ROU asset and the interest portion of lease payments which are recorded to Depreciation and Amortization and Interest Expense, respectively, on the Consolidated Statements of Operations. Finance lease ROU assets are amortized based on the lesser of the lease term and the useful life of the leased asset according to the capital asset accounting policy. If ownership of the ROU assets transfers to the Company at the end of the lease term or if the Company is reasonably certain to exercise a purchase option, amortization is calculated using the estimated useful life of the leased asset.

The below are the details of the lease cost and other disclosures regarding the Company's leases for the years ended December 31, 2022 and 2021:

	2022	2021
Finance Lease Cost:		
Amortization of Finance Lease Right-of-Use Assets	$ 15,051	$ —
Interest on Lease Liabilities	14,577	—
Operating Lease Cost	1,479,305	730,881
Short-Term Lease Costs	933,424	669,003
Total Lease Expenses	**$2,442,357**	**$1,399,884**

	2022	2021
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating Cash Flows from Finance Leases	$ 9,802	$ —
Operating Cash Flows from Operating Leases	$1,446,649	$ 712,358
Financing Cash Flows from Finance Leases	$ 19,715	$ —
Non-Cash Additions to Right-of-Use Assets and Lease Liabilities:		
Recognition of Right-of-Use Assets for Finance Leases	$ 301,022	$ —
Recognition of Right-of-Use Assets for Operating Leases	$8,614,907	$1,419,650
Weighted-Average Remaining Lease Term (Years) - Finance Leases	3.00	—
Weighted-Average Remaining Lease Term (Years) - Operating Leases	7.00	8.00
Weighted-Average Discount Rate - Finance Leases	20.40 %	—
Weighted-Average Discount Rate - Operating Leases	12.02 %	17.00 %

GLASS HOUSE BRANDS INC.
Notes to Consolidated Financial Statements
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15. LEASES *(Continued)*

Future minimum lease payments under non-cancelable finance and operating leases as of December 31, 2022 are as follows:

	Operating Leases		Finance Leases [1]	
December 31:	**Third Parties**	**Related Parties**	**Third Parties**	**Total**
2023	$ 1,371,629	$ 919,231	$ 118,069	$ 2,408,929
2024	1,399,456	931,720	118,069	2,449,245
2025	1,399,104	874,271	148,656	2,422,031
2026	1,372,745	890,899	—	2,263,644
2027	1,126,862	908,026	—	2,034,888
Thereafter	2,138,205	3,166,607	—	5,304,812
Total Future Minimum Lease Payments	8,808,001	7,690,754	384,794	16,883,549
Less Imputed Interest	(2,792,842)	(2,768,710)	(103,987)	(5,665,539)
Present Value of Lease Liability	**6,015,159**	**4,922,044**	**280,807**	**11,218,010**
Less Current Portion of Lease Liability	(710,793)	(367,178)	(66,791)	(1,144,762)
Present Value of Lease Liability, Net of Current Portion	**$ 5,304,366**	**$ 4,554,866**	**$ 214,016**	**$10,073,248**

(1) Finance-type lease right-of-use assets recorded in property, plant and equipment as of December 31, 2022. As of December 31, 2022, the current portion of finance-type lease liabilities is recorded in accounts payable and accrued liabilities and the non-current portion of finance-type lease liabilities is recorded in other non-current liabilities.

On September 14, 2021, the Company entered into an agreement to lease out a portion of its real property at approximately $500,000 per month for 36 months. However, lease payments to the Company are abated if certain contingencies are met by the lessee. As of December 31, 2022, such contingencies are expected to be met, and as a result, no rental income was recognized by the Company.

The Company leases certain business facilities from related parties and third parties under non-cancellable operating lease agreements that specify minimum rentals. The operating leases require monthly payments ranging from $800 to $56,000 and expire through November 2032. Certain lease monthly payments may escalate up to 5.0% each year. In such cases, the variability in lease payments is included within the current and noncurrent operating lease liabilities.

16. NOTES PAYABLE AND CONVERTIBLE DEBENTURES

As of December 31, 2022 and 2021, notes payable consist of the following:

	2022	2021
Term loan payable maturing in November 30, 2026, bearing interest at 10.00 percent per annum	$50,000,000	$50,000,000
Convertible Debentures	16,006,084	—
Other	442,222	238,835
Total Notes Payable	66,448,306	50,238,835
Less Unamortized Debt Issuance Costs and Loan Origination Fees	(3,789,358)	(5,383,413)
Net Amount	$62,658,948	$44,855,422
Less Current Portion of Notes Payable	(40,237)	(37,986)
Notes Payable, Net of Current Portion	**$62,618,711**	**$44,817,436**

In June 2021, GH Group completed a Series A Preferred Shares Financing at a face value of $ 12,530,963. The Series A Preferred Shares carried an annual 15.0 percent cumulative dividend in year 1. During March 2021, the Company raised $7,625,000 from unrelated third parties and recorded as debt. On June 29, 2021, all principal and accrued interest of such debt was converted to the Preferred Shares. See *"Note 13 – Derivative Liabilities"* and *"Note 18 – Shareholders' Equity"* for further details on aggregate shares issued and amounts.

Senior Secured Credit Agreement

On December 9, 2021 (the "Senior Secure Closing Date"), the Company entered into a senior secured term loan agreement, as amended (the "Credit Agreement"), for total available proceeds of up to $100,000,000 with funds managed by a U.S.-based private credit investment fund and other third-party lenders (together, the "Senior Secured Lender"). Effective December 10, 2021, the Company closed on an initial term loan through the Credit Agreement of $50,000,000. The principal amount under the Credit Agreement will be paid in monthly installments in an aggregate amount equal to 1.25% per annum of the original principal amount, 24 months following the Senior Secure Closing Date, with a maturity date through November 30, 2026. Interest will be paid, beginning December 31, 2021, in monthly installments equal to the floating base rate plus the applicable term margin, or 5.25%. The interest rate will not be less than 10% per annum or exceed 12% per annum. As of December 31, 2022 and 2021, the interest rate was 10% and 10%, respectively.

Two additional delayed draw term loans may be requested by the Company in an amount equal to the principal amount of $25,000,000 (or such lesser amount as agreed) each. The Company has optional and mandatory prepayments. Mandatory prepayments include any voluntary and involuntary sale or disposition of assets by the Company or any restricted subsidiaries. The outstanding principal amount of the obligation will be repaid by 100% of cash proceeds received from the sale or disposition of assets with certain exemptions as defined in the Credit Agreement. As of the Senior Secure Closing Date, the Company deposited an interest reserve in the amount of $3,000,000 into an escrow account and included as restricted cash in the Consolidated Balance Sheets as of December 31, 2022 and 2021. Additionally, the Company's real properties held in Glass House Farm LLC, Magu Farm LLC and GH Camarillo LLC were pledged as security.

The Credit Agreement contains a financial covenant which requires the Company to maintain liquidity in excess of $ 10,000,000 at all times. As of December 31, 2022 and 2021, the Company was in compliance with such financial covenant. Additionally, there are certain covenants which will require the Company to maintain a specific minimum debt service coverage ratio ("DSCR") which will be measured quarterly beginning with the quarter ending December 31, 2022. Such covenants were not in effect as of December 31, 2021. As of December 31, 2022, the Company was in violation of one or more debt covenants and the Credit Agreement was subsequently amended to waive such violations. See "*Note – 25 – Subsequent Events*" for further information on the amendment to the Credit Agreement.

Amendments to the Senior Secured Credit Agreement

On January 21, 2022, the Company amended and restated the Credit Agreement (the "1st Amendment") wherein certain events of default were waived.

16. NOTES PAYABLE AND CONVERTIBLE DEBENTURES *(Continued)*

On May 12, 2022, the Company amended and restated the Credit Agreement (the "2 nd Amendment") wherein certain events of default were waived, and the Company entered into an incremental term loan in the amount of $10,000,000 (the "Incremental Term Loan"), for total available proceeds of $110,000,000. The Incremental Term Loan bears interest at a rate of 10% per annum and payable in monthly installments. In addition, a 1% fee of the outstanding principal amount of the Incremental Term Loan is payable in monthly installments beginning August 1, 2022, with a maturity date through October 31, 2022. In connection with the Incremental Term Loan, the Company issued 175,000 warrants to the Senior Secured Lender, with an exercise price of $11.50 per share, to acquire each Equity Share until June 26, 2026. These warrants were fair valued using Level 1 inputs as these warrants are openly traded on a stock exchange. During the year ended December 31, 2022, the Company recorded an additional debt discount of $89,250 related to the change in terms of the Credit Agreement. In addition to receiving the $10,000,000 in Incremental Term Loan, the Company paid $ 579,000 in direct loan fees, which are recorded as a debt discount.

On August 30, 2022, the Company repaid the $ 10,000,000 Incremental Term Loan in cash. In accordance with ASC 470 "*Modifications and Extinguishments*," the Company recorded $ 489,647 of unamortized debt discount as a loss on extinguishment of debt during the year ended December 31, 2022.

Convertible Debentures

On April 28, 2022, the Company completed the Plus Products acquisition in which the purchase price was payable in part through an aggregate of 20,005 unsecured convertible debenture notes which consist of 12,003 debenture notes (the "Series A Notes") and 8,002 debenture notes (the "Series B Notes") (collectively, the "Plus Convertible Notes"). The Plus Convertible Notes accrue interest at 8.00% per annum payable in semi-annual arrears until April 15, 2027 (the "Maturity Date"). Interest is payable in cash, by the issuance of the Company's Equity Shares or a combination of both at the sole discretion of the Company, based on the 10-day VWAP of the Equity Shares ending 5 trading days prior to the interest payment date with a fixed exchange rate of USD$1.00 to CAD$1.27.

The Series A Notes are redeemable, at the sole option of the Company, in full or in part on a pro rata basis, and payable in cash, by the issuance of the Company's Equity Shares, or a combination of both, at any time through the Maturity Date based on the higher of (i) the 10-day VWAP of the Equity Shares ending 5 trading days prior to the redemption date, or (ii) $ 4.08.

The Series B Notes are redeemable, at the sole option of the Company, in full or in part on a pro rata basis, and payable in cash, by the issuance of the Company's Equity Shares, or a combination of both, at any time through the Maturity Date based on the lower of (i) the 10-day VWAP of the Equity Shares ending 5 trading days prior to the redemption date, or (ii) $ 10.00 per Equity Share. In the event the Company's Equity Shares achieve a closing price of $10.00 per share over any period greater than or equal to 20 consecutive trading days, each holder of the Series B Notes may elect to convert all or a portion of their holdings into the Company's Equity Shares based on a conversion price of $10.00 per Equity Share. As of December 31, 2022, the Company recorded $11,894,989 and $4,111,095 for the Series A Notes and Series B Notes, respectively. The conversion features of the Series A Notes and Series B Notes were bifurcated from the related notes and classified as derivatives due to the variability of price in accordance with ASC 815. Accordingly, the fair value of the conversion features for the Series A Notes and Series B Notes were measured at fair value using a discounted cash flow model that is based on unobservable inputs. During the years ended December 31, 2022 and 2021, the Company recorded a change in derivative asset of approximately $30,000 and nil, respectively, as a component of change in fair value of derivatives in the Consolidated Statements of Operations.

16. NOTES PAYABLE AND CONVERTIBLE DEBENTURES *(Continued)*

Scheduled maturities of notes payable for the years ended December 31:

December 31:	Principal Payments
2023	$ 668,955
2024	7,546,530
2025	7,549,256
2026	7,552,142
2027	7,750,339
Thereafter	35,381,084
Total Future Minimum Principal Payments	**$66,448,306**

17. NOTES PAYABLE – RELATED PARTIES

As of December 31, 2022 and 2021, the Company had nil notes payable outstanding from related parties.

Senior Convertible Notes

Effective January 8, 2020, the board of directors of GH Group approved approximately $ 17,500,000 in a private placement of Senior Convertible Notes. On January 4, 2021, the board of directors of GH Group approved an increase of the Senior Convertible Notes offering to $22,599,844. On June 29, 2021, the Senior Convertible Notes were automatically converted into the Preferred Shares of GH Group following the occurrence of a Qualified Equity Financing (the "QEF") at a conversion price equal to the lesser of 80% of the cash price paid per Preferred Share or the quotient resulting from dividing $ 250,000,000 by the number of outstanding shares of Common Stock of GH Group immediately prior to the QEF. Prior to conversion, the Senior Convertible Notes bore cash interest at a rate of 4% per year paid quarterly and generally accrue interest at a rate of 4.3% per year. The Senior Convertible Note holders were also issued a security interest in the stock and membership interests held by GH Group and its subsidiaries. As noted above, on June 29, 2021, all principal and accrued interest under the Senior Convertible Notes were converted into the Preferred Shares. See *"Note 13 – Derivative Liabilities"* and *"Note 18 – Shareholders' Equity"* for further details on aggregate shares issued and amounts.

Secured Convertible Promissory Notes

During the year ended December 31, 2018, Magu Farm LLC ("Magu Farm") issued approximately $ 9,925,000 in secured promissory notes convertible into equity interests (collectively, the "Magu Farm Convertible Notes") in Magu Investment Fund LLC ("Magu Investment Fund") to certain lenders who are affiliates of shareholders of the Company (collectively, the "Magu Farm Lenders," and individually, a "Magu Farm Lender").

17. NOTES PAYABLE – RELATED PARTIES *(Continued)*

On October 7, 2019, Magu Farm and Magu Investment Fund notified each Magu Farm Lender of Magu Investment Fund's intention to merge with and into the Company at the closing of the Roll-Up. Subsequent to such notification, effective as of October 7, 2019, each Magu Farm Lender other than Kings Bay Investment Company Ltd., a Cayman Islands company ("KBIC"), entered into a letter agreement pursuant to which such Magu Farm Lender, among other things, (a) converted its respective Magu Farm Convertible Note with an aggregate value of $8,000,000 into equity interests in Magu Investment Fund and (b) agreed to terminate both the Co-Lending Agreement and its respective security interest as defined in the agreement. All accrued and unpaid interest were paid prior to conversion. Effective March 1, 2020, KBIC assigned the balance of its respective Magu Farm Convertible Note (the "Kings Bay Note") to Kings Bay Capital Management Ltd., a Cayman Islands company ("KBCM").

Effective as of April 10, 2020, KBCM and the Company entered into an Assignment, Novation and Note Modification Agreement and a Security Agreement, pursuant to which, among other things, (a) the Company assumed all of Magu Farm's rights, duties, liabilities and obligations under the Kings Bay Note, (b) the Kings Bay Note was modified to, among other things, provide KBCM with the right to convert the Kings Bay Note into Class A Common Stock at the same conversion price accorded to the other Magu Farm Lenders, and (c) the obligations under the Kings Bay Note were secured by a pledge of the securities of the Company's subsidiaries but expressly subordinated to the holders of the Senior Convertible Notes. On June 29, 2021, all principal and accrued interest under the Kings Bay Note was converted into the Preferred Shares, and the Kings Bay security interest was terminated by filing of a UCC-3 termination statement. See *"Note 18 – Shareholders' Equity"* for further details on shares issued and amount.

In February 2021, GH Group issued a $2,000,000 unsecured promissory note in favor of Beach Front Properties, LLC. The debt was scheduled to mature in February 2022 bearing interest at fifteen percent (15%) per year. On June 29, 2021, all principal and accrued interest under such promissory note was converted to the Preferred Shares. See *"Note 13 – Derivative Liabilities"* and *"Note 18 – Shareholders' Equity"* for further details on aggregate shares issued and amounts.

In June 2021, GH Group completed a QEF for the offering and sale of the Preferred Shares having a face value of $ 12,530,963. The Preferred Shares carry an annual fifteen percent (15%) cumulative dividend in year 1, which is increased by 5% in the year following the first anniversary of the date of issuance. On June 29, 2021, all principal and accrued interest from GH Group's convertible debt was converted into the Preferred Shares. See *"Note 13 – Derivative Liabilities"* and *"Note 18 – Shareholders' Equity"* for further details on aggregate shares issued and amounts.

18. SHAREHOLDERS' EQUITY

As of December 31, 2022 and 2021, the authorized share capital of the Company is comprised of an unlimited number of (i) the Subordinate Voting Shares, (ii) the Restricted Voting Shares, (iii) the Limited Voting Shares, (iv) the Multiple Voting Shares and (v) the Preferred Shares.

Multiple Voting Shares

The Company is authorized to issue an unlimited number of Multiple Voting Shares without nominal or par value. Holders of Multiple Voting Shares are entitled to receive notice of any meeting of shareholders of the Company, and to attend, vote and speak at such meetings, except those meetings at which only holders of a specific class of shares are entitled to vote separately as a class under the *Business Corporations Act* (British Columbia). On all matters upon which holders of Multiple Voting Shares are entitled to vote, each Multiple Voting Share entitles the holder thereof to 50 votes per Multiple Voting Share. Multiple Voting Shares are not entitled to dividends and are not convertible. The Multiple Voting Shares have a three (3)-year sunset period that will expire June 29, 2024, upon which they will be automatically redeemed for $0.001 per Multiple Voting Share.

18. SHAREHOLDERS' EQUITY *(Continued)*

Equity Shares

The holders of each class of the Equity Shares are entitled to receive notice of, to attend (if applicable, virtually) and to vote at all meetings of shareholders of the Company, except that they are not able to vote (but are entitled to receive notice of, to attend and to speak) at those meetings at which the holders of a specific class are entitled to vote separately as a class under the *Business Corporations Act* (British Columbia) and except that holders of the Limited Voting Shares are not entitled to vote for the election of directors of the Company. The Subordinate Voting Shares and the Restricted Voting Shares carry one vote per share on all matters. The Limited Voting Shares carry one vote per share on all matters except the election of directors, as the holders of the Limited Voting Shares do not have any entitlement to vote in respect of the election for directors of the Company.

In the case of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Equity Shares are entitled, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Equity Shares (including any liquidation preference on any issued and outstanding Multiple Voting Shares and/or Preferred Shares), to participate ratably the Company's remaining property along with all holders of the other classes of the Equity Shares (on a per share basis).

Exchangeable Shares of MPB Acquisition Corp.

Exchangeable Shares are part of the authorized share capital of MPB, a wholly-owned subsidiary of the Company, which entitle their holders to rights that are comparable to those rights attached to the Equity Shares. The Exchangeable Shares carry one vote per share, and the aggregate voting power of the Exchangeable Shares must not exceed 49.9% of the total voting power of all classes of shares of MPB. Until a holder exchanges their Exchangeable Shares for the Equity Shares, the holder of such Exchangeable Shares will not have the right to vote at meetings of the shareholders of the Company, though they will have the right to vote at meetings of the shareholders of MPB, including with respect to altering the rights of holders of any of the Exchangeable Shares, or if MPB decides to take certain actions without fully protecting the holders of any of the Exchangeable Shares, or as otherwise required by law. The Exchangeable Shares are exchangeable at any time, on a one-for-one basis, for the Equity Shares at the option of the holder.

The Company treats the Exchangeable Shares as options, each with a value equal to an Equity Share, which represents the holder's claim on the equity of the Company. Pursuant to the terms of the Exchangeable Shares, the Company and MPB are required to maintain the economic equivalency of such Exchangeable Shares with the publicly traded Equity Shares of the Company. This means the Exchangeable Shares are required to share the same economic benefits and retain the same proportionate ownership in the assets of the Company as the holders of the Equity Shares. The Company has presented these Exchangeable Shares as a part of shareholders' equity within these Consolidated Financial Statements due to (i) the fact that they are economically equivalent to the Equity Shares, and (ii) the holders of the Exchangeable Shares are subject to restrictions on transfer under US securities laws but may dispose of the Exchangeable Shares without such restriction by exchanging them for Equity Shares. Changes in these assumptions would affect the presentation of the Exchangeable Shares from shareholders' equity to non-controlling interests; however, there would be no impact on earnings per share.

18. SHAREHOLDERS' EQUITY *(Continued)*

Preferred Shares GH Group, Inc.

The authorized total number of preferred shares (the "GH Group Preferred Shares") of GH Group is 50,000,000 of which 45,000,000 shares are designated as shares of Series A Preferred Shares ("GH Group Series A Preferred") and 55,000 shares are designated as shares of Series B Preferred Shares ("GH Group Series B Preferred"). On December 30, 2022, GH Group amended and restated its Certificate of Incorporation, to authorize 5,000 shares of Series C Preferred Shares ("GH Group Series C Preferred"). Holders of the GH Group Preferred Shares are entitled to receive notice of and attend any meeting of the shareholders of GH Group but are not entitled to vote. The GH Group Preferred Shares do not carry any voting rights and are not convertible. In the event of a liquidation, voluntary or involuntary, dissolution or winding-up of GH Group, the holders of outstanding GH Group Preferred Shares are entitled to be paid out of the assets of GH Group available for distribution to it stockholders, before any payment shall be made to the holders of GH Group common stock, of which holders of GH Group Series B Preferred are to receive payment prior to holders of GH Group Series A Preferred and GH Group Series C Preferred. GH Group has the right to redeem all or a portion of the GH Group Preferred Shares from a holder for an amount equal to the liquidation value and all unpaid accrued and accumulated dividends.

The GH Group Series A Preferred carries a 15% cumulative dividend rate, which increases by 5% in the year following the first anniversary of the date of issuance. The GH Group Series B Preferred and the GH Group Series C Preferred carry a 20% cumulative dividend rate, which increases by 2.5% annually after the second anniversary and until the 54-month anniversary of the initial issuance. Dividends are payable if and when declared by GH Group's board of directors.

There were nil and 18,515,491 shares of the GH Group Series A Preferred issued and outstanding as of December 31, 2022 and 2021, respectively; there were 49,969 and nil shares of the GH Group Series B Preferred issued and outstanding as of December 31, 2022 and 2021, respectively; and there were 4,700 and nil shares of the GH Group Series C Preferred issued and outstanding as of December 31, 2022 and 2021, respectively. In accordance with the provisions above, the Company recorded dividends to the holders of the GH Group Preferred Shares in the amount of $5,835,131 and $1,797,423 for the years ended December 31, 2022 and 2021, respectively.

Non-Controlling Interest

Non-controlling interest represents equity interests owned by parties that are not shareholders of the ultimate parent. The share of net assets attributable to non-controlling interests is presented as a component of equity. Their share of net income or loss is recognized directly in equity. Changes in the parent company's ownership interest that do not result in a loss of control are accounted for as equity transactions.

The Company recorded a loss attributable to a non-controlling interest during the years ended December 31, 2022 and 2021, of $61,675 and $197,774, respectively. The value of the equity issuances issued to non-controlling interest members were determined using the estimated fair value of the equity of the Company.

Transactions Prior to the Business Combination January 1, 2021 through June 29, 2021 (GH Group)

On January 1, 2021, GH Group issued the Class A Common Stock which was ultimately exchanged into 731,369 Exchangeable Shares valued at $3,380,278 related to an acquisition, see *"Note 9 – Business Acquisitions".* In addition, GH Group issued additional Class A Common Stock which was ultimately exchanged into 48,682 Exchangeable Shares to brokers and consultants for the acquisition. The Exchangeable Shares issued to brokers and consultants for the acquisition were recorded as share-based compensation in the amount of $225,000.

In June 2021, GH Group issued Class A Common Stock which was ultimately exchanged into 646,096 Exchangeable Shares in conversion of $1,925,000 in the Senior Convertible Notes.

18. SHAREHOLDERS' EQUITY *(Continued)*

In June 2021, GH Group issued Class A Common Stock which was ultimately exchanged into 160,149 Exchangeable Shares for the cashless exercise of 1,968,300 warrants.

Transactions Contemporaneous to the Business Combination (June 29, 2021) and through December 31, 2021

On June 29, 2021, contemporaneously with the Business Combination, the Company issued 4,754,979 Multiple Voting Shares to the founders of GH Group and issued 22,335,908 Subordinate Voting Shares to investors for approximately $ 124,359,000 in cash, net of fees but before the value of the earnout liability recorded of $7,640,334, see *"Note 14 – Contingent Shares and Earnout Liabilities"*.

During the year ended December 31, 2021, the Company, through GH Group, issued 38,808,618 Preferred Shares in connection with the Series A Preferred Shares financing and conversion of the Senior Convertible Notes into the Preferred Shares with an aggregate value of $31,285,258, net of the value of the initial derivative liability. In conjunction with these transactions, the Company issued 4,928,578, as converted, Company warrants with an exercise price of $ 10.00 per warrant which expire in June 2024. Simultaneously, certain holders of the Preferred Shares holding 20,293,127 Preferred Shares elected to convert their Preferred Shares to 2,577,227 Exchangeable Shares.

On June 29, 2021, certain holders of 5,392,564 vested options of GH Group exercised their options (some on a cashless basis and cash exercise) and were issued Subordinate Voting Shares. As a result, the Company issued 479,195 Subordinate Voting Shares with an aggregate value of $88,654.

On September 14, 2021, in conjunction with the closing pursuant to the Camarillo Acquisition Agreement for the purchase of certain real property, the Company issued 6,500,000 Subordinate Voting Shares with an aggregate value of $ 29,250,000, see *"Note 7 – Property, Plant and Equipment"* for further information.

On August 23, 2021, the Company received $1,500,000 from an investor prior to receiving Subordinate Voting Shares. During the year ended December 31, 2021, the Company issued 150,000 Subordinate Voting Shares to said investor.

In October 2021, the Company agreed to issue 150,000 Subordinate Voting Shares at a per value price of $ 4.99 per share having an aggregate value of $748,500 to Element 7. Such shares are still pending delivery as of December 31, 2022. See *"Note 22 – Commitments and Contingencies"* for further information.

On December 9, 2021, the Company issued 2,000,000 Company warrants with an exercise price of $ 11.50 per warrant which will expire in June 2026. See "*Note 16 – Notes Payable"* for further information.

During the year ended December 31, 2021, the Company's Exchangeable Voting Shareholders exchanged 9,098,302 of their Exchangeable Shares for Subordinate Voting Shares in accordance with their agreements.

Share and Equity Transactions During the Year Ended December 31, 2022

During the year ended December 31, 2022, the Company issued 2,311,213 Equity Shares to the sellers of Plus Products valued at $9,707,414, see *"Note 9 – Business Acquisitions"* for further information.

During the year ended December 31, 2022, the Company issued 347,108 Equity Shares to certain convertible note holders for interest payments valued at $868,763.

During the year ended December 31, 2022, the Company issued 227,116 Equity Shares to various individuals for the exercise of stock options. In exchange for the exercise of stock options, the Company received $303,694 in cash.

18. SHAREHOLDERS' EQUITY *(Continued)*

During the year ended December 31, 2022, the Company issued 2,162,265 Equity Shares to various individuals for the conversion of Restricted Stock Units.

During the year ended December 31, 2022, certain holders of Exchangeable Shares exchanged 5,936,636 Exchangeable Shares for a like number of Equity Shares.

During the year ended December 31, 2022, the Company received $ 5,505,000 in contributions from controlling and non-controlling interests.

During the year ended December 31, 2022, the Company issued 500,000 Equity Shares in connection with The Pottery acquisition valued at $1,100,000 at the time of issuance, see *"Note 9 – Business Acquisitions"* for further information.

During the year ended December 31, 2022, the Company issued 5,606,112 Equity Shares to the sellers of the Natural Healing Centers retail dispensaries located in Grover Beach, Lemoore and Morro Bay valued at $14,459,382, see *"Note 9 – Business Acquisitions"* for further information.

During the year ended December 31, 2022, the Company through its subsidiary, GH Group, issued 49,969 GH Group Series B Preferred Shares in connection with the GH Group Series B Preferred Shares financing with an aggregate value of $49,999,906 comprised of the following: (i) existing GH Group Series A Preferred Shares with a face value of $22,741,956 were exchanged for 22,712 GH Group Series B Preferred Shares and (ii) a new private placement of 27,257 GH Group Series B Preferred Shares with a face value of $27,257,950. In conjunction with these transactions, the Company cancelled 2,274,133 existing Company warrants and issued 9,999,937 Company warrants comprised of the following: (i) 4,548,347 replacement Company warrants and (ii) 5,451,590 Company warrants. The warrants have an exercise price of $ 5.00 per warrant and expire on August 31, 2027. The Company recorded the fair value of the Series B Preferred Shares as mezzanine non-controlling Interest in the amount of $36,549,987, which is net of the value allocated to the replacement warrants of $ 5,658,502 and newly issued warrants of $7,790,939. The Series B Preferred Shares are accounted for as mezzanine non-controlling Interest as the Series B Preferred Shares redemption feature is not in the sole control of the Company. The Series B Preferred Shares were recorded to its redemption value as of December 31, 2022 with an adjustment of $13,449,142.

During the year ended December 31, 2022, the remaining, unexchanged GH Group Series A Preferred Shares were redeemed by the Company for $772,718, in cash.

During the year ended December 31, 2022, the Company through its subsidiary, GH Group, closed on an additional private placement financing of 4,700 GH Group Series C Preferred Shares with an aggregate face value of $ 4,700,000. In conjunction with these transactions, the Company issued 940,000 Company warrants. The warrants have an exercise price of $ 5.00 per warrant which expire in August 2027. The Company recorded the fair value of the Series C Preferred Shares as mezzanine non-controlling Interest in the amount of $3,733,792, which is net of the value allocated to the newly issued warrants of $966,208. The Series C Preferred Shares are accounted for as mezzanine non-controlling Interest as the Series C Preferred Shares redemption feature is not in the sole control of the Company. The Series C Preferred Shares were recorded to its redemption value as of December 31, 2022 with an adjustment of $966,208.

Variable Interest Entity

On June 30, 2022, the Company transferred certain tenant improvements with a net book value of $ 762,095 to 2000 De La Vina LLC ("2000 DLV"), a wholly-owned subsidiary, and simultaneously sold 100% of its limited liability company membership interest in 2000 DLV for a cash payment of $3,060,000 upon closing to an entity in which certain executives and board members of the Company are members. As part of the transaction, the Company no longer has capital and profits interests in the Company; provided, however, the Company's affiliate, GH Group, was appointed the manager and received a 20% carried interest or profits interest in 2000 DLV. Thus, the Company indirectly retains control of 2000 DLV under the First Amended and Restated Operating Agreement dated May 1, 2022 between the Company and members of 2000 DLV. Accordingly, 2000 DLV became a VIE of the Company.

18. SHAREHOLDERS' EQUITY *(Continued)*

The below table summarizes information for entities the Company has concluded to be VIE's as the Company possesses the power to direct activities through various agreements. Through these agreements, the Company can significantly impact the VIE and thus holds a controlling financial interest. This information represents amounts before intercompany eliminations.

As of and for the year ended December 31, 2022, the aggregate balances of the VIE included in the accompanying Consolidated Balance Sheet and Consolidated Statements of Operations are as follows:

	2022
Current Assets	$ 111,686
Non-Current Assets	$ 2,357,957
Total Assets	**$ 2,469,643**
Non-Current Liabilities	$ 241,373
Total Liabilities	**$ 241,373**
Revenues, Net	**$ 139,500**
Net Income Attributable to Non-Controlling Interest	**$ 56,997**

19. SHARE-BASED COMPENSATION

The Company has an amended and restated equity incentive plan (the "Incentive Plan") under which the Company may issue various types of equity instruments or instruments that track to equity, more particularly the Equity Shares, to employees, officers, consultants and non-employee directors. The types of equity instruments issuable under the Incentive Plan encompass, among other things, stock options, unrestricted stock bonus, and restricted stock units (together, the "Awards"). The Awards are expensed and recorded as a component of general and administrative costs. The maximum number of the Awards that may be issued under the Incentive Plan is 10% of the fully-diluted Equity Shares of the Company (inclusive of the Equity Shares issuable in exchange for unrestricted Exchangeable Shares) as calculated using the treasury method. The Incentive Plan is an "evergreen" plan, meaning that if an Award expires, becomes un-exercisable, or is cancelled, forfeited or otherwise terminated without having been exercised or settled in full, as the case may be, the Equity Shares allocable to the unexercised portion of an Award shall again become available for future grant or sale under the Incentive Plan (unless the Incentive Plan has terminated by its terms), and the number of the Awards available for grant will increase as the number of issued and outstanding Equity Shares increases. Granting and vesting of the Awards are determined by and recommended to the Board for approval by the Compensation, Nomination and Corporate Governance Committee of the Board of Directors. The exercise price for options (if applicable) will generally not be less than the fair market value of the Award at the time of grant and will generally expire after 5 years.

Stock Options

Immediately prior to the close of the Business Combination during the year ended December 31, 2021, GH Group had 31,403,186 outstanding vested options with a blended average exercise price of $ 0.23 and 29,294,324 outstanding unvested options with a blended average exercise price of $0.26. Incident to the close, 5,392,564 options were exercised resulting in the issuance of 479,195 Subordinate Voting Shares.

Of the remaining options, the vested GH Group non-qualified stock options ("NQSOs") were paid the net-value of their outstanding options at close by reserving 1,433,793 Subordinate Voting Shares to be issued on or before June 29, 2024. As these shares have not been issued and are payable on June 29, 2024, the Company reclassified $2,756,830 from equity to shares payable. Unvested NQSOs were exchanged for RSUs of the Company on substantially similar terms to the NQSO grants equal to the net-value of such options at close using a Company share price of $10. As a result, the Company issued 1,076,499 RSUs.

19. SHARE-BASED COMPENSATION *(Continued)*

Vested and unvested GH Group incentive stock options ("ISOs") were exchanged for Company incentive stock options using an exchange ratio of 10.27078 to 1. This resulted in the exchange of 21,065,367 ISOs for 2,051,000 Company incentive stock options.

A reconciliation of the beginning and ending balance of stock options outstanding is as follows:

	Number of Stock Options		Weighted-Average Exercise Price
Balance as of December 31, 2020	48,403,624	$	0.23
Granted Prior to Business Combination	12,182,545	$	0.30
Forfeited Prior to Business Combination	(296,350)	$	0.24
Exercised Prior to Business Combination	(4,921,707)	$	0.26
Exchanged for Subordinate Shares At Business Combination	(19,320,935)	$	0.26
Converted to RSU's At Business Combination	(14,886,359)	$	0.26
Effect on Conversion related to the Business Combination	(19,108,791)	$	0.28
Granted After Business Combination	108,695	$	4.60
Forfeited After Business Combination	(72,938)	$	2.36
Balance as of December 31, 2021	**2,087,784**	**$**	**2.78**
Exercised	(227,116)	$	2.30
Forfeited	(407,781)	$	2.82
Balance as of December 31, 2022	**1,452,887**	**$**	**2.84**

The following table summarizes the stock options that remain outstanding as of December 31, 2022:

Security Issuable	Exercise Price	Expiration Date	Stock Options Outstanding
Equity Shares	$ 2.26	October 2024	629,641
Equity Shares	$ 3.08	April 2025	115,917
Equity Shares	$ 3.08	January 2026	598,634
Equity Shares	$ 4.60	October 2026	108,695
			1,452,887

As of December 31, 2022 and 2021, options vested and exercisable were 1,400,593 and 1,000,717, respectively. There were no stock options granted for the year ended December 31, 2022. For the year ended December 31, 2021, the fair value of stock options granted with a fixed exercise price was determined using the Black-Scholes option-pricing model with the following assumptions at the time of grant:

	2021
Weighted-Average Risk-Free Annual Interest Rate	0.29 %
Weighted-Average Expected Annual Dividend Yield	0.0 %
Weighted-Average Expected Stock Price Volatility	84.6 %
Weighted-Average Expected Life in Years	4.00
Weighted-Average Estimated Forfeiture Rate	0.0 %

Stock price 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 represents the period of time that stock options granted are expected to be outstanding. The risk-free rate was based on the United States Treasury zero coupon bond with a remaining term equal to the expected life of the options.

During the year ended December 31, 2021, the weighted-average fair value of stock options granted was $ 0.34 per option. As of December 31, 2022 and 2021, stock options outstanding have a weighted-average remaining contractual life of 2.4 years and 3.4 years, respectively.

19. SHARE-BASED COMPENSATION *(Continued)*

For the years ended December 31, 2022 and 2021, the Company recognized $ 1,934,561 and $4,442,223, respectively, of share-based compensation expense related to these stock options and is included as a component of general and administrative expense in the Consolidated Statements of Operations.

Restricted Stock Units

As previously noted, 1,076,499 RSUs were issued for the exchange of 14,886,359 GH Group ISOs held immediately prior to the Business Combination. An additional grant of 2,591,584 RSUs was made to certain members of the Company's senior management team which vest over three years and is subject to accelerated vesting if certain performance metrics are achieved.

A reconciliation of the beginning and ending balance of RSUs outstanding is as follows:

	Number of Restricted Stock
Balance as of December 31, 2020	**—**
Granted	2,591,584
Exchanged and Converted from Options	1,076,499
Forfeited	(437,135)
Balance as of December 31, 2021	**3,230,948**
Granted	1,968,837
Converted	(2,162,265)
Forfeited	(1,036,986)
Balance as of December 31, 2022	**2,000,534**

During the years ended December 31, 2022 and 2021, the Company recognized $ 10,821,120 and $4,042,690, respectively, in stock-based compensation related to RSUs and is included as a component of general and administrative expense in the Consolidated Statements of Operations. The fair value of the RSUs issued during the years ended December 31, 2022 and 2021 were determined using the value of the Equity Shares at the time of grant.

Stock Appreciation Right Units

During the year ended December 31, 2021, GH Group issued 230,752 SARs to various employees of the Company. The SARs vest 33% one year after the grant date and the remaining 67% vest monthly over two years. Vested and exercised SARs will receive cash in the amount of the SARs exercised multiplied by the excess of the fair market value of an Equity Share over the stated strike price of the SAR. As the SARs are cash-settled, the Company recognizes the value of the SAR as liabilities which are included in accounts payable and accrued liabilities in the Consolidated Balance Sheets. As of December 31, 2022 and 2021, the Company recorded a liability of nil and $35,442, respectively.

19. SHARE-BASED COMPENSATION *(Continued)*

A reconciliation of the beginning and ending balance of the SARs outstanding is as follows:

	Number of Stock Appreciation Rights Units
Balance as of December 31, 2020	**—**
Granted	230,752
Forfeited	(71,016)
Balance as of December 31, 2021	**159,736**
Forfeited	(59,875)
Balance as of December 31, 2022	**99,861**

During the years ended December 31, 2022 and 2021, the Company recognized a gain of $ 35,000 and an expense of $35,000, respectively, related to the SARs.

Warrants

A reconciliation of the beginning and ending balance of warrants outstanding is as follows:

	Number of Warrants	Weighted-Average Exercise Price
Balance as of December 31, 2020	**1,968,300**	$ 0.16
Exercised	(1,968,300)	$ 0.16
Assumed from the Business Combination	28,489,500	$ 11.50
Granted	6,928,578	$ 10.43
Balance as of December 31, 2021	**35,418,078**	**$ 11.29**
Granted	11,114,937	$ 5.10
Cancelled	(2,274,133)	$ 10.00
Balance as of December 31, 2022	**44,258,882**	**$ 9.80**

The following table summarizes the warrants that remain outstanding as of December 31, 2022:

Security Issuable	Exercise Price	Expiration Date	Warrants Outstanding	Warrants Exercisable
Equity Shares	$ 11.50	June 2026	30,664,500	30,664,500
Equity Shares	$ 10.00	June 2024	2,654,445	2,654,445
Equity Shares	$ 5.00	August 2027	10,939,937	10,939,937
			44,258,882	**44,258,882**

19. SHARE-BASED COMPENSATION *(Continued)*

For the year ended December 31, 2022, the fair value of the warrants granted with a fixed exercise price and fair valued using level 3 inputs was determined using the Black-Scholes option-pricing model with the following assumptions at the time of grant:

	2022
Weighted-Average Risk-Free Annual Interest Rate	3.42 %
Weighted-Average Expected Annual Dividend Yield	0.0 %
Weighted-Average Expected Stock Price Volatility	103.74 %
Weighted-Average Expected Life in Years	5.00
Weighted-Average Estimated Forfeiture Rate	0.0 %

There were no warrants issued during the year ended December 31, 2021 that required fair valuing using level 3 inputs.

During the years ended December 31, 2022 and 2021, the weighted-average fair value of warrants granted was $ 1.83 and $1.64, respectively, per warrant. As of December 31, 2022 and 2021, warrants outstanding have a weighted-average remaining contractual life of 3.6 years and 4.2 years, respectively.

20. LOSS PER SHARE

The following is a reconciliation for the calculation of net loss attributable to the Company and the basic and diluted loss per share for the years ended December 31, 2022 and 2021:

	2022	2021
Net Loss Attributable to the Company	$(35,534,892)	$(44,167,812)
Less Dividends and Increase in Redemption Values of GH Group Preferred Shares	(20,250,481)	(1,797,423)
Net Loss Attributable to the Company	(55,785,373)	(45,965,235)
Weighted-Average Shares Outstanding - Basic and Diluted	64,182,436	40,280,639
Loss Per Share Attributable to the Company - Basic and Diluted	**$ (0.87)**	**$ (1.14)**

Net income attributable to the Company, as reported, is adjusted for dividends and various other adjustments as defined in ASC 260 “Earnings Per Share”.

After adjustments as defined in ASC 260, if the Company is in a net loss position, diluted loss per share is the same as basic loss per share when the issuance of shares on the exercise of convertible debentures, warrants, RSU’s and share options are anti-dilutive. After adjustments, as defined in ASC 260, if the Company is in a net income position, diluted earnings per share includes options, warrants, RSUs, convertible debt and contingently issuable shares that are determined to be dilutive using the treasury stock method for all equity instruments issuable in equity units and the “if converted” method for the Company’s convertible debt.

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21. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES

Provision for income taxes consists of the following for the years ended December 31, 2022 and 2021:

	2022	2021
Current:		
Federal	$ 5,876,587	$3,382,708
State	1,485,814	5,161
Total Current	7,362,401	3,387,869
Deferred:		
Federal	(1,890,711)	(322,017)
State	(729,986)	232,249
Total Deferred	(2,620,697)	(89,768)
Total Provision for Income Taxes	**$ 4,741,704**	**$3,298,101**

As of December 31, 2022 and 2021, the components of deferred tax assets and liabilities were as follows:

	2022	2021
Deferred Tax Assets:		
Allowance for Doubtful Accounts	$ 998,674	$ 984,437
Inventory Reserve	58,840	219,474
Deferred Rent	17,102	18,978
Accrued Expenses	172,520	131,916
Interest Expense	—	—
Operating Lease Liabilities	1,969,561	606,718
Non-qualified Stock Options	809,992	809,992
Stock-based Compensation	3,465,882	—
Loss on Disposal of Subsidiary	1,600,209	1,720,979
Operating Losses	38,098,948	19,488,540
Property and Euipment	89,282	—
Total Deferred Tax Assets	47,281,010	23,981,034
Valuation Allowance	(44,082,411)	(22,495,563)
Net Deferred Tax Assets	**$ 3,198,599**	**$ 1,485,471**

21. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES *(Continued)*

	2022	2021
Deferred Tax Liabilities:		
Contingent Consideration	$ —	$(1,203,039)
Property, Plant & Equipment	—	(937,801)
Right-of-Use Assets	(1,908,717)	(598,774)
State Taxes	—	(76,672)
Total Deferred Tax Liabilities	(1,908,717)	(2,816,286)
Net Deferred Tax Assets (Liabilities)	**$ 1,289,882**	**$(1,330,815)**

The reconciliation between the effective tax rate on income and the statutory tax rate is as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Income Tax Benefit at Federal Rate	$ (6,441,046)	$ (8,634,892)
State Taxes and Fees	1,737,004	1,435,197
IRS Section 280E Disallowance	1,633,905	1,922,244
Uncertain Tax Position	1,954,143	420,976
Change in Valuation Allowance	21,654,795	15,810,756
Change in Fair Value of Contingent Consideration	(7,265,518)	—
State Tax Carryforwards	(6,705,205)	(3,928,330)
Excess Accrual of Prior Year Taxes	(1,722,370)	(3,425,023)
Other Permanent Differences	(104,004)	(302,827)
Reported Income Tax Expense	**$ 4,741,704**	**$ 3,298,101**

The Company has used a discrete effective tax rate method to calculate taxes for the years ended December 31, 2022 and 2021. The Company determined that since small changes in estimated ordinary income would result in significant changes in the estimated annual effective tax rate, the historical method would not provide a reliable estimate for the fiscal years ended December 31, 2022 and 2021.

As the Company operates in the legalized cannabis industry, it is subject to the limits of IRC Section 280E (“Section 280E”) for U.S. federal income tax purposes under which the Company is only allowed to deduct expenses directly related to the cost of goods sold of its product. This results in permanent differences between ordinary and necessary business expenses deemed nonallowable under Section 280E, whereas the Company deducts all operating expenses on its state tax returns for which there is no comparable provision of Section 280E under the California Revenue and Taxation Code.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

21. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES *(Continued)*

A reconciliation of the beginning and ending amount of total unrecognized tax benefits for years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Balance at Beginning of Year	$1,449,046	$ 849,358
IRS Section 280E Positions Acquired	888,130	178,712
IRS Section 280E Positions	1,954,143	420,976
Balance at End of Year	**$4,291,319**	**$1,449,046**

The Company has determined that the tax impact of its corporate overhead allocation was not more likely than not to be sustained on the merits as required under ASC 740 *"Income Taxes"* due to the evolving interpretations of Section 280E. As a result, the Company included in the balance of total unrecognized tax benefits as of December 31, 2022 and 2021, potential benefits of $4,291,319 and $1,449,046, respectively, that, if recognized, would impact the effective tax rate on income from operations. Unrecognized tax benefits that reduce a net operating loss, similar to tax loss or tax credit carryforwards, are presented as a reduction to deferred income taxes.

The Company's evaluation of tax positions was performed for those tax years which remain open to for audit. The Company may from time to time, be assessed interest or penalties by the taxing authorities, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company is assessed for interest and/or penalties, such amounts will be classified as income tax expense in the financial statements.

As of December 31, 2022, the Company's federal tax returns since 2019 and state tax returns since 2018 are still subject to adjustment upon audit. The 2020 and 2021 tax returns for SoCal Hemp JV, LLC are currently under examination by the IRS. No other Company-related tax returns are currently being examined by any taxing authorities. While it is reasonably possible that certain portions of the unrecognized tax benefit may change from a lapse in applicable statute of limitations, it is not possible to reasonably estimate the effect of any amount of such a change to previously recorded uncertain tax positions in the next 12 months.

22. COMMITMENTS AND CONTINGENCIES

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of these regulations could result in fines, restrictions on its operations, or revocation, cancellation, non-renewal or other losses of permits, licensed and entitlements 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 statues, regulations, and ordinances as of December 31, 2022 and 2021, cannabis laws and 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.

Royalty

Effective as of May 9, 2019, Sweet & Salty, Inc., a California corporation ("Lender"), and GH Brands LLC, a California limited liability company and subsidiary of the Company ("GH Brands"), entered into a License and Services Agreement, pursuant to which Lender granted to GH Brands an exclusive, transferable, sublicensable, right and license to use, exploit and incorporate the name, nicknames, initials, signature, voice, image, likeness, and photographic or graphic representations of likeness, statements and biography of the artist Annabella Avery Thorne, professionally known as Bella Thorne, for all purposes relating to or in connection with the development, quality control, cultivation, extraction, manufacture, production, branding, testing, advertising, marketing, promotion, commercialization, packaging, distribution, exploitation and/or sale of the products of GH Brands and its affiliates. The term of the License and Service Agreement is 3 years, with the right to renew upon 60 days prior notice for an additional 2-year term. Royalty fees for Bella Thorne branded boxes are 10% for the 1st year and 12% for years 2 to 5. Royalty fees for flower products and accessories are 6% for the 1st year, 7% for the 2nd year and 8% for years 3 to 5. Minimum guarantee fees are recoupable against royalties for an initial term of $1,000,000 ($50,000 initial payment, $200,000 for the 1st year, $375,000 for the 2nd year and $375,000 for the 3rd year). The agreement provides an option to renew for a 2-year term with a guaranteed minimum fee of $1,500,000 ($750,000 for the 4th year and $750,000 for the 5th year). During the years ended December 31, 2022 and 2021, the Company recognized expenses related to these royalties in the amount of $331,944 and $388,436, respectively. As of December 31, 2022 and 2021, the Company has $ 508,333 and $328,125, respectively, due under this royalty agreement which are included in accounts payable and accrued liabilities in the Consolidated Balance Sheets. The Company has not exercised the option to renew the License and Services Agreement.

22. COMMITMENTS AND CONTINGENCIES *(Continued)*

Claims and 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. As of December 31, 2022 and 2021, there were no pending or threatening lawsuits that could be reasonably assessed to have resulted in a probable loss to the Company in an amount that can be reasonably estimated. As such, no accrual has been made in the Consolidated Financial Statements relating to claims and litigations. As of December 31, 2022 and 2021, there were also no proceedings in which any of the Company's directors, officers or affiliates were an adverse party to the Company or had a material interest adverse to the Company's interest.

Element 7 Transaction and Litigation

Effective February 23, 2021, GH Group entered into a Merger and Exchange Agreement (the "E7 Merger Agreement") with Element 7 CA, LLC ("E7") whereby GH Group had the right, subject to satisfactory completion of due diligence and other conditions, to obtain all of the limited liability company membership or other equity interests held by E7 in seventeen holding companies that hold the rights to certain in-process state and local cannabis retail licenses or license applications, some of which are partially owned. In addition, GH Group entered into a License Development and Consulting Agreement (the "E7 License Agreement", and together with the E7 Merger Agreement, the "E7 Agreements") with E7 to provide certain retail consulting services to develop and obtain up to thirty-four cannabis retail licenses in exchange for the payment of certain fees as set forth in the E7 License Agreement. In November 2021, GH Group terminated the E7 Agreements based on a breach of contractual terms by E7, and as of December 31, 2021, GH Group had converted certain pre-closing financing payments and consulting fees into notes receivable in the amount of $2,274,167. As of December 31, 2022 and 2021, the notes receivable was fully reserved by the Company. As of December 31, 2021, the Company had received certain limited liability company membership or other equity interests in one E7 entity out of seventeen entities that were contractually committed to be transferred under the E7 Merger Agreement.

On November 4, 2021, GH Group filed a lawsuit in the Superior Court for the County of Los Angeles, Central District (Case No. 21STCV40401) against E7 and its principals and owners Josh Black and Robert "Bobby" DiVito (together, "Element 7") for a variety of claims, including fraud and breach of contract and demanded performance under the E7 Agreements.

The court proceeding was subsequently withdrawn by the Company without prejudice, and on March 13, 2022, GH Group entered into an agreement with American Patriot Brands, Inc. ("APB") to jointly file suit against Element 7 to enforce the transfer of certain contractually committed licenses (the "Joint Litigation Agreement"). GH Group and APB jointly refiled a complaint against Element 7 in the Superior Court of California, County of Los Angeles (Case No. 22STCV09323). The Superior Court severed the claims of GH Group and APB, which resulted in APB's claims remaining in Superior Court and GH Group's claims being adjudicated in Signature Arbitration (Case No. LQMGL) (collectively, the "Element 7 Proceeding").

Under the terms of the Joint Litigation Agreement, GH Group will pay all legal fees for GH Group and APB's joint litigation against Element 7. GH Group will have the option to purchase any E7 license or licensed entity interests recovered by APB from Element 7 that were included in the E7 Merger Agreement, that either have a state or local permit and a valid lease, or a local permit that is without a real property site but is in a competitive license jurisdiction, in each case at a valuation of $750,000 per E7 license or licensed entity, paid in Equity Shares at the 10-day VWAP calculated as of the date of such purchase. In addition, under the Joint Litigation Agreement, GH Group also has the right of first refusal to purchase any other E7 licenses or licensed entity outside of the foregoing groups, and the right to terminate the Joint Litigation Agreement at any time.

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23. RELATED PARTY TRANSACTIONS

Leases

Neo Street Partners LLC, a company partially owned by an executive and board member of the Company, entered into a five-year lease with a subsidiary of the Company. The lease, which commenced in October 2018, provides for an initial annual base rent payment of $213,049 increasing to $243,491 for years two to five. Rent expense for the years ended December 31, 2022 and 2021 were $243,491 and $243,491, respectively.

3645 Long Beach LLC, a company partially owned by an executive and board member of the Company, entered into a five-year lease with a subsidiary of the Company. The lease, which commenced in December 2019, provides for an initial annual base rent payment of $64,477 increasing to $69,352 for year two and increasing five percent per annum thereafter. Rent expense for the years ended December 31, 2022 and 2021 were $73,412 and $69,352, respectively.

Isla Vista GHG LLC, a company partially owned by executives and board members of the Company, entered into a ten-year lease with a subsidiary of the Company. The lease, which commences on the first calendar day after the Company publicly announces the opening of the retail location at the leased property (the "Commencement Date"), provides for an initial monthly rent of $5,000 starting April 19, 2022 until the Commencement Date. Effective on the Commencement Date, the initial annual base rent payment will be $144,000 and increasing three percent per annum thereafter. Rent expense for the years ended December 31, 2022 and 2021 were $59,417 and nil, respectively.

In August 2022, the Kazan Trust dated December 10, 2004, a trust owned by an executive and board member of the Company, acquired partial ownership of a real estate entity that entered into a ten-year lease with a subsidiary of the Company. The lease, which commenced in July 2022, provides for an initial annual base rent payment of $36,489 increasing three percent per annum thereafter. Rent expense for the years ended December 31, 2022 and 2021 were $12,163 and nil, respectively.

Consulting Agreement

Beach Front Property Management Inc., a company that is majority-owned by an executive and board member of the Company, entered into a consulting agreement with the Company dated September 28, 2020. The monthly consulting fee is $10,860 for M&A advisory and assistance and real estate acquisition and financing services. The agreement may be terminated by either party for any/or no reason without penalty upon seven days written notice. Consulting fees for the years ended December 31, 2022 and 2021 were $130,320 and $130,320, respectively.

Refer to "*Note 17 – Notes Payable - Related Parties*" for additional information around the notes payable for the year ended December 31, 2021.

24. REVENUES, NET

Revenues are disaggregated as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Retail	$26,730,847	$21,734,403
Wholesale	64,160,240	47,712,449
Revenues, Net	**$90,891,087**	**$69,446,852**

GLASS HOUSE BRANDS INC.
Notes to Consolidated Financial Statements
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

25. SUBSEQUENT EVENTS

Banking Environment

Silicon Valley Bank ("SVB") was closed on March 10, 2023 by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation ("FDIC") as receiver. At the time of closing, the Company did not maintain any of its cash and cash equivalents with SVB. The Company maintains cash balances at its physical locations, which are not currently insured, and with various U.S. banks and credit unions with balances in excess of the Federal Deposit Insurance Corporation and National Credit Union Share Insurance Fund limits, respectively. The Company does not believe it will be impacted by the closure of SVB and will continue to monitor the situation as it evolves.

Senior Secured Credit Agreement Amendment

As of the date of the issuance of these financial statements, the Company entered into an amendment to the Credit Agreement by which the Senior Secured Lender waived the violations and agreed to extend the DSCR covenant for each fiscal quarter beginning on June 30, 2023. In connection with the amendment to the Credit Agreement, the Company will pay an amount equal to 2% of the aggregate principal amount of the loan outstanding on August 1, 2023.

Exhibit 99.2



GLASS HOUSE BRANDS INC.
(FORMERLY MERCER PARK BRAND ACQUISITION CORP.)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE YEARS ENDED
DECEMBER 31, 2022
AND
DECEMBER 31, 2021

Introduction

This management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as of March 31, 2023 and should be read together with Glass House Brands Inc.'s (the "Company") audited Consolidated Financial Statements (the "Financial Statements"), as of and for the years ended December 31, 2022 and 2021, and accompanying notes. The financial results discussed herein have been prepared in accordance with U.S. GAAP ("GAAP") and, unless otherwise noted, are expressed in United States dollars. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Overview

The Company, formerly known as Mercer Park Brand Acquisition Corp. ("Mercer Park"), was incorporated under the *Business Corporations Act* (British Columbia) on April 16, 2019. The Company is a vertically integrated cannabis company that operates exclusively in the state of California. The Company, through its subsidiaries, cultivates, manufactures, and distributes cannabis bulk flower and trim to wholesalers and cannabis-related consumer packaged goods ("CPG") to third-party retail stores in the state of California. The Company also owns and operates retail cannabis stores in the state of California. The Company's subordinate voting shares (the "Subordinate Voting Shares"), restricted voting shares (the "Restricted Voting Shares") and limited voting shares (the "Limited Voting Shares", and, collectively with the Subordinate Voting Shares and the Restricted Voting Shares, the "Equity Shares"), and common share purchase warrants are listed on the NEO Exchange Inc., trading under the symbols "GLAS.A.U" and "GLAS.WT.U", respectively. The Equity Shares and common share purchase warrants also trade on the OTCQX in the United States under the symbols "GLASF" and "GHBWF", respectively. The head office and principal address of the Company is 3645 Long Beach Boulevard, Long Beach, California 90807. The Company's registered office in Canada is 2200 HSBC Building 885 West Georgia Street, Vancouver, British Columbia, Canada V6C 3E8.

Major Business Lines and Geographies

The Company views its financial results under one business line – the creation of extensible wholesale goods, and CPG and brands through cannabis cultivation, production, and sales. The Company currently generates all of its revenue in the state of California.

While many cannabis businesses prioritize brand building and customer acquisition before securing a reliable product flow, the Company believes that in a consumer-focused CPG space, consistent delivery of high-quality product at an attractive price point is a first principle and a prerequisite for any other activity.

Cannabis Cultivation, Production and Sales

The Company operates multiple greenhouse cultivation facilities located in unincorporated Carpinteria and Camarillo, California, and its manufacturing production facilities are located in Lompoc, California. During the year ended December 31, 2022, the Company completed the acquisition of an approximately 5.5 million square foot hi-tech greenhouse facility (the "Camarillo Facility") located in Camarillo, California (the "Camarillo Asset Acquisition"). Phase I of the Camarillo Facility is now licensed and operational. The Company completed the first harvest in June 2022, four weeks earlier than expected. In April 2022, the Company completed the acquisition of Plus Products Holdings Inc., a leading edible brand in California. In September 2022, the Company completed three acquisitions of Natural Healing Center retail dispensaries located in Grover Beach, Lemoore and Morro Bay, California. As of the date of the MD&A, a fourth NHC-affiliated dispensary located in Turlock, California is in the process of being acquired and is anticipated to close in or about April 2023.

The Company generates revenue by selling its products in bulk at wholesale and at retail to its own and third-party dispensaries in California, including raw cannabis, cannabis oil, and cannabis CPG. The Company's "Farmacy" branded dispensaries are currently located in Santa Barbara, Santa Ana and Berkeley, California.

Market Update and Objectives

The state of California represents the largest single state-legalized market for cannabis in the U.S., with an adult population of over 31 million. The California market is highly fragmented, with over 8,500 cultivation licenses in operation, over 1,000 distribution licenses, over 800 operational dispensaries, greater than 1,000 brands and a significant illicit market. In addition to this, burdened with high taxes, competition and a weakened consumer demand, California operators may find it difficult to operate in this market. While in recent years, the Company has seen wholesale prices decline from years past, the Company has seen some recent improvement in wholesale prices, and, due to its operations, the Company believes it is best fit to capitalize on that. With this backdrop, the Company looks to continue to use scale in cultivation and distribution (at wholesale and through its own retail dispensaries and third-party retailers) to achieve economies of scale that will allow the Company to outperform competitors and build superior brand awareness and loyalty.

SELECTED FINANCIAL INFORMATION

The following are the results of our operations for the year ended December 31, 2022 compared to the year ended December 31, 2021:

	Year Ended	
	December 31, 2022	December 31, 2021
Revenues, Net	$ 90,891,087	$ 69,446,852
Cost of Goods Sold (Exclusive of Depreciation and Amortization Shown Separately Below)	69,352,692	53,427,461
Gross Profit	21,538,395	16,019,391
Operating Expenses:		
General and Administrative	45,756,572	33,780,783
Sales and Marketing	3,427,338	3,530,529
Professional Fees	9,951,482	9,078,289
Depreciation and Amortization	12,301,466	4,767,396
Total Operating Expenses	71,436,858	51,156,997
Loss from Operations	(49,898,463)	(35,137,606)
Other Expense (Income):		
Interest Expense	7,608,490	2,736,875
Interest Income	(56,468)	(64,837)
Loss on Investments	2,006,639	1,089,047
Loss (Gain) on Change in Fair Value of Derivative Liabilities	29,863	(825,000)
(Gain) on Change in Fair Value of Contingent Liabilities	(28,868,949)	(4,031,634)
Loss on Disposition of Subsidiary	—	6,090,337
Loss on Extinguishment of Debt	489,647	—
Impairment Expense	—	817,875
Other (Income) Expense, Net	(252,822)	117,216
Total Other (Income) Expense, Net	(19,043,600)	5,929,879
Loss from Operations Before Provision for Income Tax Expense	(30,854,863)	(41,067,485)
Provision for Income Tax Expense	4,741,704	3,298,101
Net Loss	(35,596,567)	(44,365,586)
Net Loss Attributable to Non-Controlling Interest	(61,675)	(197,774)
Net Loss Attributable to the Company	**$ (35,534,892)**	**$ (44,167,812)**
Loss Per Share - Basic and Diluted	**$ (0.87)**	**$ (1.14)**
Weighted-Average Shares Outstanding - Basic and Diluted	**$ 64,182,436**	**$ 40,280,639**

Revenue

Revenue for the year ended December 31, 2022 was $90.9 million, which represents an increase of $21.5 million, or 31%, from $69.4 million for the year ended December 31, 2021. The increase in revenue was primarily due to an increase in the Company's wholesale biomass operations by $16.4 million, or 34%, for the year ended December 31, 2022 as compared to the year ended December 31, 2021. The increase in wholesale biomass was partially driven from operations in the Camarillo Facility which completed the first harvest in June 2022, coupled with an increase in wholesale prices in the California market as well the acquisition of Plus Products Holdings Inc. in April 2022. The Company's increase in revenue was also due to an increase in our cannabis retail operations of $5.0 million, or 23%, in retail sales during the year ended December 31, 2022 as compared to retail sales during the comparative prior year. The increase was primarily attributable to the acquisitions of those certain Natural Healing Center retail dispensaries located in Grover Beach, Lemoore and Morro Bay, California in September 2022. The Natural Healing Center retail dispensaries reported an aggregate $6.7 million in net retail revenue for the year ended December 31, 2022, compared to nil for the comparative prior year.

Cost of Goods Sold and Gross Profit

Cost of goods sold for the year ended December 31, 2022 was $69.3 million, an increase of $15.9 million, or 30%, compared to $53.4 million for the year ended December 31, 2021. Gross profit for the year ended December 31, 2022 was $21.5 million, representing a gross margin of 24%, compared with a gross profit of $16.0 million, representing a gross margin of 23% for the year ended December 31, 2021. The increase in cost of goods sold was primarily attributable to the Company's growth in revenue and accompanying increase in production costs associated with the Company's cultivation and retail expansion. The increase in gross margin is primarily due to revenues increasing at a higher rate than the costs associated with such revenues, coupled with an increase in wholesale prices in the California market.

Total Operating Expenses

Total operating expenses for the year ended December 31, 2022 was $71.4 million, an increase of $20.3 million, or 40%, compared to total operating expenses of $51.1 million for the year ended December 31, 2021. The increase in total operating expenses was attributable to the factors described below.

General and administrative expenses for the years ended December 31, 2022 and 2021 were $45.7 million and $33.8 million, respectively, an increase of $11.9 million, or 35%. The increase in general and administrative expenses is primarily attributed to the Company's initiatives in connection with operational expansion including corporate, cultivation and retail operations which resulted in an increase of $9.0 million for stock-based compensation and salaries and wages for the year ended December 31, 2022 as compared to the prior year.

Sales and marketing expenses for the years ended December 31, 2022 and 2021 were $3.4 million and $3.5 million, respectively, a decrease of $0.1 million, or 3%. The decrease in sales and marketing expenses is primarily attributed to the decrease in the Company's efforts related to digital media, marketing research and promotions. Sales and marketing expenses include trade marketing, point of sale marketing for our CPG product lines and promotions in various media outlets.

Professional fees for the year ended December 31, 2022 and 2021 were $9.9 million and $9.1 million, respectively, an increase of $0.8 million, or 10%. The Company recognized increased legal fees of $1.8 million during the year ended December 31, 2022 as compared to the prior year which was primarily driven by acquisition-related fees for the Natural Healing Center retail dispensaries located in Grover Beach, Lemoore, and Morro Bay and start-up activities associated with cannabis retail applicants located in Santa Barbara and Santa Ynez, California, and other acquisition-related fees. The increase in legal fees was partially offset by a decrease in accounting services and consulting fees of $1.1 million during year ended December 31, 2022 as compared to the prior year as a result of the preparation for the merger with Mercer Park during the year ended December 31, 2021.

Depreciation and amortization for the years ended December 31, 2022 and 2021 was $12.3 million and $4.8 million, respectively, an increase of $7.5 million, or 158%. The increase is attributed to the growth of the Company's operations through the acquisition of the Camarillo Facility in the third quarter of 2021 which resulted in increased depreciation and amortization during the year ended December 31, 2022 as compared to the year ended December 31, 2021.

Total Other Income

Total other income for the year ended December 31, 2022 was $19.0 million, and total other expense for the year ended December 31, 2021 was $5.9 million, a favorable variance of $25.0 million, or 421%. The favorable variance was primarily due to an increase in gain on change in fair value of contingent liabilities of $24.8 million for the current year as compared to the prior year due to the decline of the Company's share price for which the fair value of some contingent liabilities is based upon and reduced projections of earnings in which the fair value of other contingent liabilities is based upon. See "*Note 14 – Contingent Shares and Earnout Liabilities*" in the Consolidated Financial Statements for further information. In addition, there was a favorable variance of $6.1 million due to a loss in the disposition of a subsidiary recognized during the year ended December 31, 2021, with nothing comparable in the current year. During the year ended December 31, 2021, the Company deconsolidated Field Investment Co. LLC, a subsidiary, and its subsidiaries Field Taste Matters, Inc., ATES Enterprises, LLC, and Zero One Seven Management, LLC, for de minimis consideration to an unrelated party. The favorable variances were offset by an increase in interest expense of $4.9 million due to the Series B Preferred Shares financing by the Company's subsidiary GH Group, Inc. (the "Private Placement Financing"), discussed below, and a loss on change in fair value of derivatives of $0.9 million during the year ended December 31, 2022 as compared to the prior year. See "*Note 18 – Shareholders' Equity*" in the Financial Statements for further information on the private placement financing.

Provision for Income Taxes

The provision for income tax expense for the year ended December 31, 2022 and 2021 was $4.7 million and $3.3 million, respectively, an unfavorable variance of $1.4 million, or 44%. The unfavorable change in provision for income taxes was due to the Company's decrease in net loss from operations compared to the prior year.

SUMMARY OF QUARTERLY RESULTS

The following are the results of our operations for the three months ended December 31, 2022 compared to three months ended December 31, 2021:

	Three Months Ended	
	December 31, 2022	**December 31, 2021**
	(unaudited)	*(unaudited)*
Revenues, Net	$ 32,188,634	$ 18,360,442
Cost of Goods Sold (Exclusive of Depreciation and Amortization Shown Separately Below)	21,969,237	18,725,078
Gross Profit (Loss)	10,219,397	(364,636)
Operating Expenses:		
General and Administrative	13,911,631	13,527,875
Sales and Marketing	858,726	1,178,713
Professional Fees	1,876,126	2,079,807
Depreciation and Amortization	3,416,357	2,521,058
Total Operating Expenses	20,062,840	19,307,453
Loss from Operations	(9,843,443)	(19,672,089)
Other Expense (Income):		
Interest Expense	2,167,939	543,500
Interest Income	(55,961)	(16,172)
Loss on Investments	708,647	236,318
(Gain) on Change in Fair Value of Derivative Liabilities	(48,187)	—
Loss (Gain) on Change in Fair Value of Contingent Liabilities	2,086,400	(808,241)
Impairment Expense	—	817,875
Other Expense, Net	315,320	59,872
Total Other Expense, Net	5,174,158	833,152
Loss from Operations Before Provision for Income Tax Expense	(15,017,601)	(20,505,241)
Provision for Income Tax Expense (Benefit)	1,729,460	(1,738,643)
Net Loss	(16,747,061)	(18,766,598)
Net Loss Attributable to Non-Controlling Interest	(8,071)	(197,774)
Net Loss Attributable to the Company	**$ (16,738,990)**	**$ (18,766,598)**
Loss Per Share - Basic and Diluted	**$ (0.32)**	**$ (0.32)**
Weighted-Average Shares Outstanding - Basic and Diluted	**71,964,711**	**56,678,711**

Revenue

Revenue for the three months ended December 31, 2022 was $32.2 million, which represents an increase of $13.8 million, or 75%, from $18.4 million for the three months ended December 31, 2021. The Company's revenue in wholesale biomass business and retail operations increased. The Company's wholesale biomass and cannabis retail operations increased by $8.4 million and $5.4 million, respectively, for the three months ended December 31, 2022 as compared to the same period in the prior year. The increase in wholesale biomass was primarily driven from operations in the Camarillo Facility which completed the first harvest in June 2022 as compared to no contributing revenue for the same period in the prior year. The Company's increase in revenue was also due to an expansion of our cannabis retail operations and the acquisitions of the Natural Healing Center retail dispensaries located in Grover Beach, Lemoore and Morro Bay, California in September 2022. The Natural Healing Center retail dispensaries reported $5.4 million in net retail revenue for the three months ended December 31, 2022, compared to nil for the same period in the prior year.

Cost of Goods Sold and Gross Profit

Cost of goods sold for the three months ended December 31, 2022 was $22.0 million, an increase of $3.3 million, or 17%, compared with $18.7 million for the three months ended December 31, 2021. Gross profit for the three months ended December 31, 2022 was $10.2 million, representing a gross margin of 32%, compared with a gross loss of $0.4 million, representing a gross loss margin of (2)% for the three months ended December 31, 2021. The increase in cost of goods sold was primarily attributable to the Company's growth in revenue and accompanying increase in production. An increase in retail and cultivation capacity as well as the associated increase in product, labor, and overhead costs during the three months ended December 31, 2022 supported the increase in production. The increase in gross margin was primarily due to increased revenue from the Company's acquired subsidiaries which became operational during the current period and were non-operational in the same period in the prior year.

Total Operating Expenses

Total operating expenses for the three months ended December 31, 2022 was $20.1 million, an increase of $0.8 million, or 4%, compared to total operating expenses of $19.3 million for the three months ended December 31, 2021. The increase in total operating expenses was attributable to the factors described below.

General and administrative expenses for the three months ended December 31, 2022 and December 31, 2021 were $13.9 million and $13.5 million, respectively, an increase of $0.4 million, or 3%. The increase in general and administrative expenses is primarily due to the Company's initiatives with operational expansion driving a $1.6 million increase in salaries and wages and other personnel-related costs, a $1.0 million increase in cannabis taxes and licensing fees, and a $0.3 million increase in rent expense for the three months ended December 31, 2022 as compared to the same period in the prior year. These increases were partially offset by a $2.8 million decrease in bad debt expense where certain notes receivable for Element 7 and the Pottery of $2.2 million and $1.0 million, respectively, were reserved during the fourth quarter of 2021.

Sales and marketing expenses for the three months ended December 31, 2022 and December 31, 2021 were $0.9 million and $1.2 million, respectively, an increase of $0.3 million, or 27%. The decrease in sales and marketing expenses is primarily attributed to the Company's efforts related to trade shows, promotions, and digital media expenses during the three months ended December 31, 2022, as compared to the same period in the prior year. Sales and marketing expenses include trade marketing, point of sale marketing for our wholesale CPG business product lines and promotions in various media outlets.

Professional fees for the three months ended December 31, 2022 and December 31, 2021 were $1.9 million and $2.1 million, respectively, a decrease of $0.2 million, or 10%. The Company recognized a decrease in legal and consulting fees of $0.4 million primarily attributable to the debt financing in 2021, partially offset by increased accounting professional fees of $0.2 million during the fourth quarter of 2022 as compared to the same period in the prior year.

Depreciation and amortization for the three months ended December 31, 2022 and December 31, 2021 was $3.4 million and $2.5 million, respectively, an increase of $0.9 million, or 36%. The increase is attributed to the growth of the Company's operations through acquisition, as well as significant property and equipment acquired in recent periods as compared to the same period in the prior year.

Total Other Expense

Total other expense for the three months ended December 31, 2022 and 2021 was $5.2 million and $0.8 million, respectively, an increase of $4.4 million, or 521%. The increase in total other expense was primarily due to $1.6 million increase in interest expense, $0.5 million of higher net losses on investments, $2.9 million unfavorable change in fair value of contingent liabilities, and a $0.3 million increase in net other expenses during the three months ended December 31, 2022 as compared to the same period in the prior year. This was offset by a favorable variance of impairment expense of $0.8 million during the three months ended December 31, 2022 as compared to the same period in the prior year.

Provision for Income Taxes

The provision for income tax expense for the three months ended December 31, 2022 was $1.7 million, an unfavorable change of $3.5 million, or 199%, compared to provision for income tax benefit of $1.7 million for the three months ended December 31, 2021. The unfavorable change in provision for income taxes was directly impacted by the Company's increase in gross profit for the current period.

Non-GAAP Financial Measures

In addition to providing financial measurements based on GAAP, the Company provides additional financial metrics that are not defined under, prepared in accordance with or a standardized financial measure under GAAP. Management uses such non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision-making, for planning and forecasting purposes and to evaluate the Company's financial performance. These non-GAAP financial measures (collectively, the "**non-GAAP financial measures**") are:

EBITDA Net Loss (GAAP) adjusted for interest and financing costs, income taxes, depreciation, and amortization. This non-GAAP measure represents the Company's current operating profitability and ability to generate cash flow.

Adjusted EBITDA EBITDA (non-GAAP) adjusted for share-based compensation, stock appreciation rights expense, loss on equity method investments, change in fair value of derivative liabilities, change in fair value of contingent liabilities, acquisition-related professional fees, non-operational start-up costs and loss on disposition of subsidiary. Non-operational start-up costs are set-up costs to prepare a location for its intended use. Start-up costs are expensed as incurred and are not indicative of ongoing operations. This non-GAAP measure represents the Company's current operating profitability and ability to generate cash flow excluding non-recurring, irregular or one-time expenditures in order improve comparability.

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

As there are no standardized methods of calculating these non-GAAP financial measures, the Company's methods may differ from those used by others, and accordingly, the use of these measures may not be directly comparable to similarly titled measures used by others in the cannabis industry or otherwise. Accordingly, these non-GAAP financial measures are intended to provide additional information and are not intended to represent and should not be considered, as alternatives to net income, operating income or any other performance measures derived in accordance with GAAP as measures of operating performance or operating cash flows or as measures of liquidity. Such non-GAAP financial measures should only be considered in conjunction with the GAAP financial measures presented herein and in the Company's financial statements.

These supplemental non-GAAP financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believe that the supplemental non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. In addition, the Company believes investors use both GAAP and non-GAAP measures to assess management's past and future decisions associated with its priorities and allocation of capital, as well as to analyze how the business operates in, or responds to, swings in economic cycles or to other events that impact the cannabis industry.

These non-GAAP financial measures have important limitations as analytical tools and should not be considered in isolation or as a substitute for any standardized measure under GAAP. For example, certain of these non-GAAP financial measures:

- exclude certain tax payments that may reduce cash available to the Company;
- do not reflect any cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future;
- do not reflect changes in, or cash requirements for, working capital needs; and
- do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on debt.

Adjusted EBITDA (non-GAAP)

The following table provides a reconciliation of the Company's net loss to Adjusted EBITDA (non-GAAP) for the three months ended December 31, 2022 compared to the three months ended December 31, 2021:

	Three Months Ended	
	December 31, 2022	December 31, 2021
Net Loss (GAAP)	$ (16,747,061)	$ (18,766,598)
Depreciation and Amortization	3,416,357	2,521,058
Interest Expense	2,167,939	543,500
Income Tax Expense	1,729,460	(1,738,643)
EBITDA (non-GAAP)	(9,433,305)	(17,440,683)
Adjustments:		
Shared-Based Compensation	3,770,329	3,153,365
Stock Appreciation Rights Expense	—	(43,210)
Loss on Equity Method Investments	708,647	236,318
Impairment Expense	—	817,875
Change in Fair Value of Derivative Liabilities	(48,187)	—
Change in Fair Value of Contingent Liabilities	2,086,400	(808,241)
Acquisition Related Professional Fees	—	34,582
Non-Operational Start-up Costs	319,063	1,662,743
Non-Operational Notes Receivable Bad Debt Reserve	—	3,242,786
Adjusted EBITDA (non-GAAP)	$ (2,597,053)	$ (9,144,465)

Adjusted EBITDA, a non-GAAP financial measure, was a net loss of $2.6 million for the three months ended December 31, 2022 compared to a net loss of $9.1 million for the three months ended December 31, 2021. The favorable change in Adjusted EBITDA of $6.5 million is primarily due to an increase in gross profit of $10.6 million for the three months ended December 31, 2022 as compared to the same period in the prior year.

Non-operational start-up costs are set-up costs to prepare a location for its intended use. Start-up costs are expensed as incurred and are not indicative of ongoing operations.

For the three months ended December 31, 2022, income tax expense decreased by $0.6 million compared to the amounts disclosed in our March 13, 2023 press release for the same period due to additional information considered. There was no change in EBITDA or Adjusted EBITDA from our March 13, 2023 press release because of the change in income tax expense.

The following table provides a reconciliation of the Company's net loss to Adjusted EBITDA (non-GAAP) for the year ended December 31, 2022 compared to the year ended December 31, 2021:

	Year Ended	
	December 31, 2022	December 31, 2021
Net Loss (GAAP)	$ (35,596,567)	$ (44,365,586)
Depreciation and Amortization	12,301,466	4,767,396
Interest Expense	7,608,490	2,736,875
Income Tax Expense	4,741,704	3,298,101
EBITDA (non-GAAP)	(10,944,907)	(33,563,214)
Adjustments:		
Shared-Based Compensation	12,755,681	8,709,913
Stock Appreciation Rights Expense	(35,442)	35,442
Loss on Equity Method Investments	2,006,639	1,089,047
Impairment Expense	—	817,875
Change in Fair Value of Derivative Liabilities	29,863	(825,000)
Change in Fair Value of Contingent Liabilities	(28,868,949)	(4,031,634)
Acquisition Related Professional Fees	2,261,195	5,017,471
Non-Operational Start-up Costs	1,441,624	1,662,743
Non-Operational Notes Receivable Bad Debt Reserve	—	3,242,786
Loss on Disposition of Subsidiary	—	6,090,337
Adjusted EBITDA (non-GAAP)	$ (21,354,296)	$ (11,754,234)

Adjusted EBITDA, a non-GAAP financial measure, was a net loss of $21.4 million for the year ended December 31, 2022 compared to a net loss of $11.8 million for the year ended December 31, 2021. The unfavorable change in adjusted EBITDA of $9.6 million is primarily due to higher non-excludable operating expenses after adjustments.

Selected Quarterly Information

A summary of selected information for each of the quarters presented is as follows:

	Revenues	Net Income (Loss) Before Non-Controlling Interest	Earnings (Loss) Per Share - Basic Attributable to the Company	Earnings (Loss) Per Share - Diluted Attributable to the Company
	Unaudited	Unaudited		
December 31, 2022	$ 32,188,634	$ (16,747,061)	$ (0.32)	$ (0.32)
September 30, 2022	$ 28,256,835	$ 15,168,550	$ 0.05	$ 0.04
June 30, 2022	$ 16,473,247	$ (14,192,292)	$ (0.23)	$ (0.23)
March 31, 2022	$ 13,972,371	$ (19,825,764)	$ (0.33)	$ (0.33)
December 31, 2021	$ 18,360,442	$ (18,766,598)	$ (0.32)	$ (0.32)
September 30, 2021	$ 17,171,852	$ (7,728,476)	$ (0.17)	$ (0.17)
June 30, 2021	$ 18,674,277	$ (4,716,721)	$ (0.19)	$ (0.19)
March 31, 2021	$ 15,240,281	$ (13,153,793)	$ (0.55)	$ (0.55)

Revenue for the quarter ended December 31, 2022 was $32.2 million, an increase of $3.9 million, or 14% from $28.3 million for the quarter ended September 30, 2022. The increase in revenue during the fourth quarter of 2022 is primarily due to the acquisitions of the Natural Healing Center retail dispensaries located in Grover Beach, Lemoore and Morro Bay, California which reported $5.4 million in revenue as compared to nil during the third quarter of 2022. Revenue for the quarter ended September 30, 2022 was $28.3 million, an increase of $11.8 million, or 72% from $16.5 million for the quarter ended June 30, 2022. The increase was primarily due to the Company's expanded cultivation operations of the Camarillo Facility which completed the first harvest in June 2022. Revenue for the quarter ended June 30, 2022 was $16.5 million, which represents an increase of $2.5 million, or 18% from $14.0 million for the quarter ended March 31, 2022. The increase in revenue was primarily due to the operations of the Camarillo Facility which had revenues of $2.2 million as compared to nil during the quarter ended March 31, 2022. The Company completed the Phase I retrofitting project work at the Camarillo Facility during the quarter ended June 30, 2022. Revenue for the quarter ended March 31, 2022 was $14.0 million, which represents a decrease of $4.4 million or 24% from $18.4 million for the quarter ended December 31, 2021. The decrease in revenue during the three months ended March 31, 2022 was driven by decreased wholesale biomass pricing. Revenue for the quarter ended December 31, 2021 was $18.4 million, which represents an increase of $1.2 million or 7% from $17.2 million for the quarter ended September 30, 2021. The increase in revenue from the quarter ended September 30, 2021 was primarily due to the increase in quantity of wholesale biomass sold offset by a continued decline in pricing.

Net loss for the quarter ended December 31, 2022 was $16.7 million, which represents an unfavorable change of $31.9 million, or 210% from net income of $15.2 million for the quarter ended September 30, 2022. The unfavorable change was due to a gain on change in fair value of contingent liabilities recognized during the quarter ended September 30, 2022 of $31.1 million as compared to a loss on change in fair value of contingent liabilities of $2.1 million during the fourth quarter of 2022. Net income for the quarter ended September 30, 2022 was $15.2 million, which represents a favorable change of $29.4 million, or 207% from $14.2 million net loss for the quarter ended June 30, 2022. The decrease in net loss was primarily due to the increase in other income of $25.1 million for the current quarter as a result of a gain on change in fair value of contingent liabilities recognized. Net loss for the quarter ended June 30, 2022 was $14.2 million, which represents a decrease of $5.6 million, or 28% from $19.8 million net loss for the quarter ended March 31, 2022. The decrease in net loss was primarily due to a gain on change in fair value of contingent liabilities as a result of the unfavorable change in Company stock price as of June 30, 2022 as compared to March 31, 2022. Net loss for the quarter ended March 31, 2022 was $19.8 million, which represents an increase of $1.1 million or 6% from a net loss of $18.8 million for the quarter ended December 31, 2021. The difference in net loss was due to a decrease in gross profit for the quarter ended March 31, 2022, coupled with increased operating expenses, including an increase in general and administrative expenses as well as depreciation and amortization. The Company was building out the Camarillo Facility that was acquired during the fourth quarter of 2021, which resulted in a $2.6 million net loss recognized for the quarter ended March 31, 2022. Net loss for the quarter ended December 31, 2021 was $18.8 million, which represents an increase of $11.1 million, or 143% from a net loss of $7.7 million for the quarter ended September 30, 2021. The difference in net loss was primarily due to an increase in total operating expenses for the quarter ended December 31, 2021 of $7.4 million of which $4.9 million is related to non-operational start-up costs and non-operational notes receivable bad debt reserve coupled with net loss related to the Camarillo Facility of $2.6 million for the quarter ended December 31, 2021.

Liquidity and Capital Resources

Overview

Historically, the Company's primary source of liquidity has been its operations, capital contributions made by equity investors and debt issuances. The Company is meeting its current operational obligations as they become due from its current working capital and from operations. However, the Company has sustained losses since inception and may require additional capital in the future. As of and for the year ended December 31, 2022, the Company had an accumulated deficit of $96,362,182, a net loss from operations of $35,534,892 and net cash used in operating activities of $40,804,768. The Company estimates that based on current business operations and working capital, it will continue to meet its obligations as they become due in the short term.

The Company is generating cash from revenues and deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are primarily being utilized for capital expenditures, facility improvements, product development and marketing.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages its liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. In the event sufficient cash flow is not available from operating activities, the Company may continue to raise equity or debt capital from investors and/or third-party lenders in order to meet liquidity needs. If the Company is not able to secure adequate additional funding, the Company may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, or suspend or curtail planned programs. Any of these actions could materially harm the Company's business, results of operations and future prospects. There can be no assurance that such financing will be available or will be on terms acceptable to the Company.

Credit Agreement with Senior Secured Lender

On December 9, 2021, the Company entered into a senior secured term loan agreement, as amended (the "Credit Agreement"), for total available proceeds of up to $100,000,000 with funds managed by a U.S.-based private credit investment fund and other third-party participating lenders (together, the "Senior Secured Lender"). Effective December 10, 2021, the Company closed on an initial term loan through the Credit Agreement of $50,000,000. The initial term loan has a variable interest rate currently set at 10% per annum, but which in no event shall be more than 12% per annum. The principal amount of the initial term loan has been, and is anticipated to be, used for ongoing operations, capital expenditures and other corporate purposes. See *"Note 16 – Notes Payable and Convertible Debentures"* in the Financial Statements for further information.

On May 12, 2022, the Company amended and restated the Credit Agreement (the "2 nd Amendment") wherein certain events of default were waived, and the Company entered into an incremental term loan in the amount of $10,000,000 (the "Incremental Term Loan"), for total available proceeds of $110,000,000. The Incremental Term Loan bears interest at a rate of 10% per annum and is payable in monthly installments. In addition, a 1% fee of the outstanding principal amount of the Incremental Term Loan is payable in monthly installments beginning August 1, 2022, with a maturity date through October 31, 2022. In connection with the Incremental Term Loan, the Company issued 175,000 warrants to the Senior Secured Lender, which are each exercisable to acquire one Equity Shares at an exercise price of $11.50 per share, and expire on June 26, 2026. These warrants were fair valued using Level 1 inputs as these warrants are openly traded

on a stock exchange. The principal amount of the initial term loan has been, and is anticipated to be, used for ongoing operations, capital expenditures and other corporate purposes.

On August 30, 2022, the Company repaid the $10,000,000 Incremental Term Loan in cash with proceeds received from the private placement financings, as discussed below under the heading "*Private Placement Financings*".

As of December 31, 2022, the Company was in violation of one or more debt service covenants under the Credit Agreement. On March 29, 2023, the Company entered into an amendment by which the Senior Secured lender waived such violations and agreed to extend a certain debt service coverage ratio covenant for each fiscal quarter beginning on June 30, 2023. In connection with the amendment to the Credit Agreement, the Company will pay an amount equal to 2% of the aggregate principal amount of the loan outstanding on August 1, 2023.

Private Placement Financings

On August 31, 2022, the Company, through its subsidiary GH Group, Inc. ("GH Group"), closed the first tranche of the private placement financing of Series B Preferred Shares for an aggregate face value of $37,365,651. The initial closing included new money invested of $14,731,200 and existing Series A Preferred Shares with a face value of $22,634,451 exchanged for new Series B Preferred Shares. A total of 37,337 shares of Series B Preferred Shares were issued which consisted of 22,606 replacement shares issued to the existing Series A Preferred Shareholders in exchange for new Series B Preferred Shares and 14,731 shares issued in exchange for new investment of cash in the Private Placement Financing. Additionally, the Company cancelled 2,263,385 existing warrants of the Company and issued 4,526,848 replacement warrants of the Company as well as 2,946,240 new warrants of the Company. The warrants have an exercise price of $5.00 per warrant and expire in August 31, 2027.

On September 30, 2022, the Company, through GH Group, closed on the second tranche of the private placement financing of Series B Preferred Shares for an aggregate face value of $4,860,926. The second closing included new investment of cash in the amount of $4,769,000 and an exchange of existing Series A Preferred Shares with a face value of $91,926 for new Series B Preferred Shares. A total of 4,860 shares of Series B Preferred Shares were issued which included an exchange of 91 existing Series A Preferred Shares for new Series B Shares and 4,769 shares for new investment in the private placement financing. Additionally, the Company cancelled 9,191 existing warrants of the Company, issued 18,384 replacement warrants of the Company and issued 953,800 new warrants of the Company. The warrants have an exercise price of $5.00 per warrant and expire in August 2027. The combined new cash raised from the first and second closings is approximately $19,500,000. See "Note 18 – Shareholders' Equity" in the Financial Statements for further information.

On December 6, 2022, the Company, through GH Group, closed on a third tranche of the private placement financing of Series B Preferred Shares for an aggregate face value of $7,772,750. The third closing included new investment of cash in the amount of $7,757,171 and an exchange of existing Series A Preferred Shares with a face value of $15,579 for new Series B Preferred Shares. A total of 7,773 shares of Series B Preferred Shares were issued which included an exchange of 15 Series A Preferred Shares for new Series B Shares and 7,758 shares for new investment in the private placement financing. Additionally, the Company cancelled 1,557 existing warrants of the Company, issued 3,115 replacement warrants of the Company and issued 1,551,550 new warrants of the Company. The warrants have an exercise price of $5.00 per warrant and expire in August 2027. The combined new cash raised from the three closings is approximately $27,300,000. See "Note 18 – Shareholders' Equity" in the Financial Statements for further information.

On December 30, 2022, the Company through its subsidiary, GH Group, Inc., closed on a new private placement financing of 4,700 GH Group Series C Preferred Shares in cash with an aggregate face value of $4,700,000. In conjunction with these transactions, the Company issued 940,000 warrants of the Company. The warrants have an exercise price of $5.00 per warrant and expire in August 2027. See "Note 18 – Shareholders' Equity" in the Financial Statements for further information.

Financial Condition

Cash Flows

The following table summarizes the Company's Consolidated Statements of Cash Flows from the Financial Statements for the years ended December 31, 2022 and 2021:

	2022	2021
Net Cash Used in Operating Activities	$ (40,804,768)	$ (20,285,249)
Net Cash Used in Investing Activities	(29,200,673)	(111,500,742)
Net Cash Provided by Financing Activities	30,082,112	181,317,571
Net (Decrease) Increase in Cash, Restricted Cash and Cash Equivalents	(39,923,329)	49,531,580
Cash, Restricted Cash and Cash Equivalents, Beginning of Year	54,066,831	4,535,251
Cash, Restricted Cash and Cash Equivalents, End of Year	**$ 14,143,502**	**$ 54,066,831**

Cash Flow from Operating Activities

Net cash used in operating activities was $40.8 million for the year ended December 31, 2022, an increase of $20.5 million, or 101%, compared to $20.3 million for the year ended December 31, 2021. The unfavorable variance in cash used in operating activities was primarily due to an unfavorable variance of $23.5 million attributable to adjustments to reconcile net loss to net cash used in operating activities coupled with a $5.8 million increase from changes in operating assets and liabilities, partially offset by a favorable $8.8 million decrease in net loss for the year ended December 31, 2022, when compared to the prior year.

Cash Flow from Investing Activities

Net cash used in investing activities was $29.2 million for the year ended December 31, 2022, a decrease of $82.3 million, or 74%, compared to $111.5 million for the year ended December 31, 2021. This was primarily driven by a decrease in purchases of property and equipment of $80.7 million for the year ended December 31, 2022, as compared to the prior year. During the year ended December 31, 2021, the Company closed on the Camarillo Facility asset acquisition and was in the process of completing retrofitting improvements to the Camarillo Facility for its intended operational use.

Cash Flow from Financing Activities

Net cash provided in financing activities totaled $30.1 million for the year ended December 31, 2022, a decrease of $151.2 million, or 83%, compared to $181.3 million for the year ended December 31, 2021. This was driven by cash proceeds received from the issuance of equity related to the business combination of GH Group and Mercer Park Brand Acquisition Corp. during the year ended December 31, 2021 of $125.8 million, compared to $0.3 million during the year ended December 31, 2022 and was coupled with a decrease in proceeds from the issuance of notes payable of $48.8 million. Additionally, the Company had an increase in proceeds from the issuance by GH Group of preferred shares of $32.0 million for the year ended December 31, 2022 as compared to nil in the prior year.

As previously noted, the Company's primary source of liquidity has been capital contributions and debt capital made available from investors. The Company expects to generate positive cash flow from its operations going forward and expects such positive cash flow to be its principal source of future liquidity. In the event sufficient cash flow is not available from operating activities, the Company may be required to continue to raise equity capital from investors in order to meet liquidity needs. The Company does not have any committed sources of financing, nor significant outstanding capital expenditure commitments.

Contractual Obligations

The Company has contractual obligations to make future payments, including debt agreements and lease agreements from third parties.

The following table summarizes such obligations as of December 31, 2022:

	2023	2024	2025-2026	After 2026	Total
Notes Payable from Third Parties	$ 668,955	$ 7,546,530	$ 15,101,398	$ 43,131,423	$ 66,448,306
Lease Obligations	2,408,929	2,449,245	4,685,675	7,339,700	16,883,549
Total Contractual Obligations	**$ 3,077,884**	**$ 9,995,775**	**$ 19,787,073**	**$ 50,471,123**	**$ 83,331,855**

Off-Balance Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

Transactions with Related Parties During the Year Ended December 31, 2022

Related parties are defined as management and members of the Company and/or members of their immediate family and/or other companies and/or entities in which a board member or senior officer is a principal owner or senior executive. All material transactions between related parties during the year ended December 31, 2022 are as follows:

Leases

Neo Street Partners LLC, a company partially owned by an executive and board member of the Company, entered into a five-year lease with a subsidiary of the Company. The lease, which commenced in October 2018, provides for an initial annual base rent payment of $213,049 increasing to $243,491 for years two to five. Rent expense for the years ended December 31, 2022 and 2021 were $243,491 and $243,491, respectively.

3645 Long Beach LLC, a company partially owned by an executive and board member of the Company, entered into a five-year lease with a subsidiary of the Company. The lease, which commenced in December 2019, provides for an initial annual base rent payment of $64,477 increasing to $69,352 for year two and increasing five percent per annum thereafter. Rent expense for the years ended December 31, 2022 and 2021 were $73,412 and $69,352, respectively.

Isla Vista GHG LLC, a company partially owned by executives and board members of the Company, entered into a ten-year lease with a subsidiary of the Company. The lease, which commences on the first calendar day after the Company publicly announces the opening of the retail location at the leased property (the “Commencement Date”), provides for an initial monthly rent of $5,000 starting April 19, 2022 until the Commencement Date. Effective on the Commencement Date, the initial annual base rent payment will be $144,000 and increasing three percent per annum thereafter. Rent expense for the years ended December 31, 2022 and 2021 were $59,417 and nil, respectively.

In August 2022, the Kazan Trust dated December 10, 2004, a trust owned by an executive and board member of the Company, acquired partial ownership of a real estate entity that entered into a ten-year lease with a subsidiary of the Company. The lease, which commenced in July 2022, provides for an initial annual base rent payment of $36,489 increasing three percent per annum thereafter. Rent expense for the years ended December 31, 2022 and 2021 were $12,163 and nil, respectively.

Consulting Agreement

Beach Front Property Management Inc., a company that is majority-owned by an executive and board member of the Company, entered into a consulting agreement with the Company dated, September 28, 2020. The monthly consulting fee is $10,860 for M&A advisory and assistance and real estate acquisition and financing services. The agreement may be terminated by either party for any/or no reason without penalty upon seven days’ written notice. Consulting fees for the years ended December 31, 2022 and 2021 were $130,320 and $130,320, respectively.

Critical Accounting Estimates

Use of Estimates

The preparation of the Financial Statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the Financial Statements and the reported amounts of total net revenue and expenses during the reporting period. The Company regularly evaluates significant estimates and assumptions related to the consolidation or non-consolidation of variable interest entities, estimated useful lives, depreciation of property and equipment, amortization of intangible assets, inventory valuation, share-based compensation, business combinations, goodwill impairment, long-lived asset impairment, purchased asset valuations, fair value of financial instruments, compound financial instruments, derivative liabilities, deferred income tax asset valuation allowances, incremental borrowing rates, lease terms applicable to lease contracts and going concern. These estimates and assumptions are based on current facts, historical experience and various other factors that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses that are not readily apparent from other sources. The actual results the Company experiences may differ materially and adversely from these estimates. To the extent there are material differences between the estimates and actual results, the Company’s future results of operations will be affected.

Estimated Useful Lives and Depreciation of Property and Equipment

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Estimated Useful Lives and Amortization of Intangible Assets

Amortization of intangible assets is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgment. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions.

Impairment of Long-Lived Assets

For purposes of the impairment test, long-lived assets such as property, plant and equipment and definite-lived intangible assets are grouped with other assets and liabilities at the lowest level for which identifiable independent cash flows are available ("asset group"). The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In order to determine if assets have been impaired, the impairment test is a two-step approach wherein the recoverability test is performed first to determine whether the long-lived asset is recoverable. The recoverability test (Step 1) compares the carrying amount of the asset to the sum of its future undiscounted cash flows using entity-specific assumptions generated through the asset's use and eventual disposition. If the carrying amount of the asset is less than the cash flows, the asset is recoverable and an impairment is not recorded. If the carrying amount of the asset is greater than the cash flows, the asset is not recoverable and an impairment loss calculation (Step 2) is required. The measurement of the impairment loss to be recognized is based on the difference between the fair value and the carrying value of the asset group. Fair value can be determined using a market approach, income approach or cost approach. The cash flow projection and fair value represents management's best estimate, using appropriate and customary assumptions, projections and methodologies, at the date of evaluation. The reversal of impairment losses is prohibited.

Leased Assets

In accordance with ASU 2016-02, "*Leases (Topic 842)*" ("ASC 842"), the Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and accrued obligations under operating lease (current and non-current) liabilities in the Consolidated Balance Sheets. ROU assets for finance leases are included in property and equipment, net, and accrued current and non-current obligations are included in accounts payable and accrued liabilities and other non-current liabilities, respectively, in the Consolidated Balance Sheets. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and are expensed in the Consolidated Statements of Operations on a straight-line basis over the lease term.

The Company applies judgment in determining whether a contract contains a lease and if a lease is classified as an operating lease or a finance lease. The Company applies judgment in determining the lease term as the non-cancellable term of the lease, which may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. All relevant factors that create an economic incentive for it to exercise either the renewal or termination are considered. The Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. In adoption of ASC 842, the Company applied the practical expedient test or approach which applies hindsight in determining the lease term and assessing impairment of right-of-use assets by using its actual knowledge or current expectation as of the effective date. The Company also applies judgment in allocating the consideration in a contract between lease and non-lease components. It considers whether the Company can benefit from the right-of-use asset either on its own or together with other resources and whether the asset is highly dependent on or highly interrelated with another right-of-use asset. Lessees are required to record a right-of -use asset and a lease liability for all leases with a term greater than twelve months. Lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected remaining lease term. The incremental borrowing rate is determined using estimates which are based on the information available at commencement date and determines the present value of lease payments if the implicit rate is unavailable.

Income Taxes

Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the Consolidated Balance Sheets of the Financial Statements. Effects of enacted tax law changes on deferred tax assets and liabilities are reflected as adjustments to tax expense in the period in which the law is enacted. Deferred tax assets may be reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized.

The Company follows accounting guidance issued by the Financial Accounting Standards Board ("FASB") related to the application of accounting for uncertainty in income taxes. Under this guidance, the Company assesses the likelihood of the financial statement effect of a tax position that should be recognized when it is more likely than not that the position will be sustained upon examination by a taxing authority based on the technical merits of the tax position, circumstances, and information available as of the reporting date.

Convertible Instruments

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with ASC 815, "*Accounting for Derivative Instruments and Hedging Activities*". Professional standards generally provide three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free-standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as "The Meaning of Conventional Convertible Debt Instrument".

The Company applies ASU 2020-06, "*Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*" ("ASC 815-40"), which simplifies the accounting for convertible instruments by eliminating the requirement to separate embedded conversion features from the host contract when the conversion features are not required to be accounted for as derivatives under ASC 815, "*Derivatives and Hedging*", or that do not result in substantial premiums accounted for as paid-in capital. By removing the separation model, a convertible debt instrument will be reported as a single liability instrument with no separate accounting for embedded conversion features. This standard also removes certain settlement conditions that are required for contracts to qualify for equity classification and simplifies the diluted earnings per share calculations by requiring that an entity use the if-converted method and that the effect of potential share settlement be included in diluted earnings per share calculations. The Company also records, when necessary, deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. ASC 815-40 provides that generally, if an event is not within the entity's control could or require net cash settlement, then the contract shall be classified as an asset or a liability.

Derivative Liabilities

The Company evaluates its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the Consolidated Statements of Operations. In calculating the fair value of derivative liabilities, the Company uses a valuation model when Level 1 inputs are not available to estimate fair value at each reporting date. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the Consolidated Balance Sheets as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within twelve months of the Balance Sheets dates.

Business Combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition related transaction costs are expensed as incurred and included in the Consolidated Statements of Operations of the Financial Statements. Identifiable assets and liabilities, including intangible assets, of acquired businesses are recorded at their fair value at the date of acquisition. When the Company acquires control of a business, any previously held equity interest is also remeasured to fair value. The excess of the purchase consideration and any previously held equity interest over the fair value of identifiable net assets acquired is goodwill. If the fair value of identifiable net assets acquired exceeds the purchase consideration and any previously held equity interest, the difference is recognized in the Consolidated Statements of Operations of the Financial Statements immediately as a gain on acquisition.

Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. The Company allocates the total cost of the acquisition to the underlying net assets based on their respective estimated fair values. As part of this allocation process, the Company identifies and attributes values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding multiple, highly subjective variables, including those with respect to future cash flows, discount rates, asset lives, and the use of different valuation models, and therefore require considerable judgment. The Company's estimates and assumptions are based, in part, on the availability of listed market prices or other transparent market data. These determinations affect the amount of amortization expense recognized in future periods. The Company bases its fair value estimates on assumptions it believes to be reasonable but are inherently uncertain. Contingent consideration that is

classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with ASC 450, "*Contingencies*", as appropriate, with the corresponding gain or loss being recognized in earnings in accordance with ASC 805, "*Business Combinations*".

Consolidation of Variable Interest Entities ("VIE")

ASC 810 requires a variable interest holder to consolidate a VIE if that party has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. To determine whether or not a variable interest the Company holds could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size and form of the Company's involvement with the VIE. The equity method of accounting is applied to entities in which the Company is not the primary beneficiary or the entity is not a VIE and the Company does not have effective control, but can exercise influence over the entity with respect to its operations and major decisions. The Company does not consolidate a VIE in which it is not considered the primary beneficiary. The Company evaluates its relationships with all the VIE's on an ongoing basis to reassess if it continues to be the primary beneficiary.

Share-Based Compensation

The Company has an amended and restated equity incentive plan (the "Incentive Plan") under which the Company may issue various types of equity instruments or instruments that track to equity, more particularly the Equity Shares, to employees, officers, consultants and non-employee directors. The types of equity instruments issuable under the Incentive Plan encompass, among other things, stock options, unrestricted stock bonuses and restricted stock units (together, "Awards"). See "*Note 19 – Share-Based Compensation*" in the Financial Statements for further information.

The Company accounts for Awards in accordance with ASC 718, " *Compensation – Stock Compensation*", which requires fair value measurement on the grant date and recognition of compensation expense for all share-based payment awards made to employees and directors, including restricted share awards. For stock options, the Company estimates the fair value using a closed option valuation (Black-Scholes) model. When there are market-related vesting conditions to the vesting term of the share-based compensation, the Company uses a valuation model to estimate the probability of the market-related vesting conditions being met and will record the expense. The fair value of restricted share awards is based upon the quoted market price of the common shares on the date of grant. The fair value is then expensed over the requisite service periods of the Awards, net of estimated forfeitures, which is generally the performance period, and the related amount is recognized in the Consolidated Statements of Operations of the Financial Statements.

The fair value models require the input of certain assumptions that require the Company's judgment, including the expected term and the expected share price volatility of the underlying share. The assumptions used in calculating the fair value of share-based compensation represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change resulting in the use of different assumptions, share-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If the actual forfeiture rate is materially different from management's estimates, the share-based compensation expense could be significantly different from what the Company has recorded in the current period.

Financial Instruments

Fair Value

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the Financial Statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on available information, and forward-looking information that is reasonable and supportive. For accounts receivable only, the Company applies the simplified approach as permitted by ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*". The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk. Rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Changes in Accounting Policies Including Adoption

In May 2021, the FASB issued ASU 2021-04, " *Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)"* ("ASU 2021-04"), which amends existing guidance for earnings per share (EPS) in accordance with Topic 260. ASU 2021-04 is effective for the Company beginning January 1, 2022. This update should be applied prospectively on or after the effective date of the amendments. The Company adopted ASU 2021-04 on January 1, 2022. The adoption of the standard did not have a material impact on the Company's Consolidated Financial Statements.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivables, investments, notes receivable, trade payables, accrued liabilities, operating lease liabilities, derivatives, notes payable, acquisition consideration of assets and liabilities. All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.

Level 3 – inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

There have been no transfers between fair value levels during the years.

Other Risks and Uncertainties

Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure as of December 31, 2022 and 2021 is the carrying values of cash, restricted cash, and cash equivalents, accounts receivable and notes receivable. The Company does not have significant credit risk with respect to its customers. All cash and cash equivalents are placed with major U.S. financial institutions. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as the majority of its sales are transacted with cash.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As of December 31, 2022 and 2021, cash generated from ongoing operations was not sufficient to fund operations and growth strategy as discussed above in "Liquidity and Capital Resources". The Company has therefore depended on financing from sale of our equity and from debt financing to fund our operations. Overall, management does not expect the net cash contribution from our operations and investments to be positive in the near term, and the Company therefore expects to rely on financing from equity or debt.

Regulatory Risk

Regulatory risk pertains to the risk that the Company's business objectives are contingent, in part, upon the compliance of regulatory requirements. Due to the nature of the industry, the Company recognizes that regulatory requirements are more stringent and punitive in nature. Any delays in obtaining, or failure to obtain regulatory approvals can significantly delay operational and product development and can have a material adverse effect on the Company's business, results of operation, and financial condition. The Company is cognizant of the advent of regulatory changes occurring in the cannabis industry on the state, local, and federal levels. Although regulatory outlook on the cannabis industry has been moving in a positive trend, the Company is aware of the effect that unforeseen regulatory changes could have on the goals and operations of the business as a whole.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's financial liabilities have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company's investments are susceptible to price risk arising from uncertainties about their future outlook, future values and the impact of market conditions. The fair value of investments in privately-held entities are based on a market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Tax Risk

Tax risk is the risk of changes in the tax environment that would have a material adverse effect on the Company's business, results of operations, and financial condition. Currently, state licensed marijuana businesses are assessed a comparatively high effective federal tax rate due to Internal Revenue Code Section 280E, which bars businesses from deducting all expenses except their cost of goods sold when calculating federal tax liability. Any increase in tax levies resulting from additional tax measures may have a further adverse effect on the operations of the Company, while any decrease in such tax levies will be beneficial to future operations.

For a detailed description of risk factors associated with the Company and its operations, please see the "Risk Factors" section of the Company's annual information form for the year ended December 31, 2022, available on SEDAR at www.sedar.com.

Shareholders' Equity

As of December 31, 2022 and 2021, the authorized share capital of the Company is comprised of an unlimited number of (i) Subordinate Voting Shares, (ii) Restricted Voting Shares, (iii) Limited Voting Shares, (iv) Multiple Voting Shares and (v) Preferred Shares.

Multiple Voting Shares

The Company is authorized to issue an unlimited number of Multiple Voting Shares without nominal or par value. Holders of Multiple Voting Shares are entitled to receive notice of any meeting of shareholders of the Company, and to attend, vote and speak at such meetings, except those meetings at which only holders of a specific class of shares are entitled to vote separately as a class under the Business Corporations Act (British Columbia). On all matters upon which holders of Multiple Voting Shares are entitled to vote, each Multiple Voting Share entitles the holder thereof to 50 votes per Multiple Voting Share. Multiple Voting Shares are not entitled to dividends and are not convertible. The Multiple Voting Shares have three (3)-year sunset period that will expire June 29, 2024, upon which they will be automatically redeemed for $0.001 per Multiple Voting Share.

Equity Shares

The holders of each class of the Equity Shares are entitled to receive notice of, to attend (if applicable, virtually) and to vote at all meetings of shareholders of the Company, except that they are not able to vote (but are entitled to receive notice of, to attend and to speak) at those meetings at which the holders of a specific class are entitled to vote separately as a class under the *Business Corporations Act* (British Columbia) and except that holders of the Limited Voting Shares are not entitled to vote for the election of directors of the Company. The Subordinate Voting Shares and the Restricted Voting Shares carry one vote per share on all matters. The Limited Voting Shares carry one vote per share on all matters except the election of directors, as the holders of the Limited Voting Shares do not have any entitlement to vote in respect of the election for directors of the Company.

In the case of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Equity Shares are entitled, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Equity Shares (including any liquidation preference on any issued and outstanding Multiple Voting Shares and/or Preferred Shares), to participate ratably in the Company's remaining property along with all holders of the other classes of the Equity Shares (on a per share basis).

Exchangeable Shares of MPB Acquisition Corp.

Exchangeable shares (the "Exchangeable Shares") are part of the authorized share capital of MPB Acquisition Corp. ("MPB"), a wholly-owned subsidiary of the Company, which entitle their holders to rights that are comparable to those rights attached to the Equity Shares, except that the aggregate voting power of the Exchangeable Shares must not exceed 49.9% of the total voting power of all classes of shares of MPB. Until a holder exchanges their Exchangeable Shares for Equity Shares, the holder of such Exchangeable Shares will not have the right to vote at meetings of the shareholders of the Company, though they will have the right to vote at meetings of the shareholders of MPB, including with respect to altering the rights of holders of any of the Exchangeable Shares, or if MPB decides to take certain actions without fully protecting the holders of any of the Exchangeable Shares, or as otherwise required by law. The Exchangeable Shares are exchangeable at any time, on a one-for-one basis, for the Equity Shares at the option of the holder.

The Company treats the Exchangeable Shares as options, each with a value equal to an Equity Share, which represents the holder's claim on the equity of the Company. In order to comply with certain contractual requirements of the business combination or merger with Mercer Park, the Company and MPB are required to maintain the economic equivalency of such Exchangeable Shares with the publicly traded Equity Shares of the Company. This means the Exchangeable Shares are required to share the same economic benefits and retain the same proportionate ownership in the assets of the Company as the holders of the Equity Shares. The Company has presented these Exchangeable Shares as a part of shareholders' equity within these Consolidated Financial Statements due to (i) the fact that they are economically equivalent to the Equity Shares, and (ii) the holders of the Exchangeable Shares are subject to restrictions on transfer under the U.S. securities laws but may dispose of the Exchangeable Shares without such restriction by exchanging them for the Equity Shares. Changes in these assumptions would affect the presentation of the Exchangeable Shares from shareholders' equity to non-controlling interest; however, there would be no impact on earnings per share.

Preferred Shares GH Group, Inc.

The authorized total number of preferred shares (the "GH Group Preferred Shares") of GH Group is 50,000,000 of which 45,000,000 shares are designated as shares of Series A Preferred Shares ("GH Group Series A Preferred") and 55,000 shares are designated as shares of Series B Preferred Shares (the "GH Group Series B Preferred"). On December 30, 2022, the GH Group amended and restated its Certificate of Incorporation, to authorize 5,000 shares of Series B Preferred Shares (the "GH Group Series C Preferred"). As of December 31, 2022 and 2021, there were 54,669 and 18,515,491, respectively, GH Group Preferred Shares issued and outstanding. Holders of the GH Group Preferred Shares are entitled to receive notice of and attend any meeting of the shareholders of GH Group but are not entitled to vote. The GH Group Preferred Shares do not carry any voting rights and are not convertible. In the event of a liquidation, voluntary or involuntary, dissolution or winding-up of GH Group, the holders of outstanding GH Group Preferred Shares are entitled to be paid out of the assets of the GH Group available for distribution to it stockholders, before any payment shall be made to the holders of GH Group common stock, of which holders of the GH Group Series B Preferred are to receive payment prior to holders of the GH Group Series A Preferred and GH Group Series C Preferred. GH Group has the right to redeem all or some of the GH Group Preferred Shares from a holder for an amount equal to the liquidation value and all unpaid accrued and accumulated dividends.

The GH Group Series A Preferred carries a 15% cumulative dividend rate, which increases by 5% in the year following the first anniversary of the date of issuance. The GH Group Series B Preferred and GH Group Series C Preferred carry a 20% cumulative dividend rate, which increases by 2.5% annually after the second anniversary and until the 54-month anniversary of the initial issuance. Dividends are payable if and when declared by GH Group's board of directors.

There were nil and 18,515,491 shares of the GH Group Series A Preferred issued and outstanding as of December 31, 2022 and 2021, respectively; there were 49,969 and nil shares of the GH Group Series B Preferred issued and outstanding as of December 31, 2022 and 2021, respectively; and there were 4,700 and nil shares of the GH Group Series C Preferred issued and outstanding as of December 31,

2022 and 2021, respectively. In accordance with the provisions above, the Company recorded dividends to the holders of the GH Group Preferred Shares in the amount of $5,835,131 and $1,797,423 for the years ended December 31, 2022 and 2021, respectively.

Shares Outstanding

As of March 22, 2023, the Company had 4,754,979 Multiple Voting Shares and 56,868,199 Equity Shares issued and outstanding. There are 12,566,550 Exchangeable Shares issued and outstanding in the capital of MPB. In addition, the Company had an aggregate of 44,258,882 warrants, 1,452,887 stock options and 1,983,495 RSUs outstanding as of March 22, 2023.

The following table summarizes the Equity Shares that were issued and outstanding as of March 22, 2023:

Equity Shares	Issued and Outstanding
Subordinate Voting Shares (SVS)	23,287,783
Restricted Voting Shares (RVS)	18,532,803
Limited Voting Shares (LVS)	15,047,613
	56,868,199

Cautionary Note Regarding Forward-Looking Information

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as “forward-looking statements”). These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of, such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. Forward looking statements include, but are not limited to: statements concerning the completion of, and matters relating to, the various proposed transactions discussed by the Company herein and the expected timing related thereto; the expected operations, financial results and condition of the Company; general economic trends; expectations of market size and growth in the United States and California, the State the Company operates in; cannabis cultivation, production and extraction capacity estimates and projections; additional funding requirements; the Company’s future objectives and strategies to achieve those objectives; the Company’s estimated cash flow and capitalization and adequacy thereof; and other statements with respect to management’s beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts.

Inherent in forward-looking statements are risks, uncertainties, and other factors beyond the Company’s ability to predict or control. Factors that could cause such differences include, but are not limited to: cannabis is a controlled substance under applicable legislation; the enforcement of cannabis laws could change; differing regulatory requirements across jurisdictions may hinder economies of scale; legal, regulatory or other political change; the unpredictable nature of the cannabis industry; regulatory scrutiny; the impact of regulatory scrutiny on the ability to raise capital; anti-money laundering laws and regulations; any reclassification of cannabis or changes in the federal legality and regulation of U.S. controlled substances; restrictions on the availability of favorable locations; enforceability of contracts; general regulatory and licensing risks; California regulatory regime and transfer and grant of licenses; limitations on ownership of licenses; regulatory action from the Food and Drug Administration; competition; ability to attract and retain customers; unfavorable publicity or consumer perception; results of future clinical research and/or controversy surrounding vaporizers and vaporizer products; limited market data and difficulty to forecast; constraints on marketing products; execution of the Company’s business strategy; reliance on management; ability to establish and maintain effective internal control over financial reporting; competition from synthetic production and technological advances; fraudulent or illegal activity by employees, contractors and consultants; product liability and recalls; risks related to product development and identifying markets for sale; dependence on suppliers, manufacturers, and contractors; reliance on inputs; reliance on equipment and skilled labor; service providers; litigation and any unexpected outcomes thereof; intellectual property risks; information technology systems, cyber-attacks, security, and privacy breaches; bonding and insurance coverage; transportation; energy costs; risks inherent in an agricultural business; management of growth; risks of leverage; future acquisitions or dispositions; difficulty attracting and retaining personnel; and past performance not being indicative of future results.

Readers are cautioned that the factors outlined herein are not an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company’s actual results, performance, or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether because of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

Disclosure Controls and Internal Control over Financial Reporting

In accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), management is responsible for establishing and maintaining adequate Disclosure Controls and Procedures ("DCP") and Internal Control Over Financial Reporting ("ICFR").

Disclosure Controls and Procedures

In accordance with NI 52-109, management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company, have evaluated the effectiveness of the Company's DCP. Based on the evaluation of the Company's DCP as of December 31, 2022, the Company's CEO and CFO concluded that, as a result of the material weaknesses in our ICFR described below, the Company's DCP were not effective as of such date.

Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act in relation to criteria described in Internal Control–Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). ICFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable U.S. GAAP. Internal control over financial reporting should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of our assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable GAAP;
- receipts and expenditures are only being made in accordance with authorizations of management and the board of directors of the Company; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial instruments.

A material weakness is a deficiency, or combination of control deficiencies, in ICFR, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Management has concluded that as of December 31, 2022, our DCP were not effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act or under applicable Canadian securities laws is recorded, processed, summarized and reported within the time periods specified therein, and accumulated and reported to management to allow timely discussions regarding required disclosure. As a result, management noted the following material weaknesses:

As of December 31, 2022, we have material weaknesses in our ICFR relating to use of estimates and assumptions that affect the reported amounts of certain assets and liabilities at the dates of the Financial Statements and the reported amount of total expenses during the reporting period. The Company did not appropriately review the accounting treatment relating to the accounting for complex financing transactions and for business combinations. The Company did not appropriately assess the terms and conditions related to the GH Group Preferred Shares issued during the year, did not properly value the Equity Shares issued in one of the business combinations that closed during the year and did not identify and account for certain deferred Equity Share issuances that are a apart of the consideration of the acquisitions that closed during the year. As a result the Company corrected the classification and the recorded amounts related to the GH Group Series B Preferred Shares and the treatment and valuation of the acquisition transactions. No other material errors were identified in the Financial Statements as a result of the material weaknesses. These material weaknesses create a reasonable possibility that material misstatements in interim or annual financial statements would not be prevented or detected on a timely basis.

As of December 31, 2021, we have material weaknesses in our ICFR relating to non-routine transactions, accounting for an asset acquisition and financial instruments. The Company did not appropriately review the accounting treatment of rent abatement in relation to an asset acquisition transaction which resulted in the Company correcting the recorded amounts related to rental income, property plant and equipment and deferred rent income. In addition, the Company did not appropriately assess the collectability of certain financial instruments resulting in the Company writing off certain notes receivables. No other material errors were identified in the Financial Statements as a result of the material weaknesses. These material weaknesses create a reasonable possibility that material misstatements in interim or annual financial statements would not be prevented or detected on a timely basis.

Remediation of Material Weakness in ICFR

Management, with oversight from the audit committee, will implement remediation measures related to the material weaknesses identified. The Company will implement a plan, which includes providing more comprehensive and timely training to control owners related to non-routine transactions. The Company will proactively hire additional personnel with requisite skills to review complex non-routine transactions including, but not limited to asset acquisition and credit worthiness of the holders of our financial instruments. Management believes these measures, and others that may be implemented, will remediate the material weaknesses in ICFR described above. We will continue to monitor and evaluate the effectiveness of our ICFR over financial reporting on an ongoing basis and are committed to taking further action and implementing additional improvements as necessary and as funds allow.

No assurance can be provided at this time that the actions and remediation efforts will effectively remediate the material weakness described above or prevent the incidence of other material weaknesses in the Company's ICFR in the future. Management, including the CEO and CFO, does not expect that disclosure controls and procedures or ICFR will prevent all errors, even as the remediation measures are implemented and further improved to address the material weakness. A control system is subject to inherent limitations and even those systems determined to be effective can provide only reasonable, but not absolute, assurance that control objectives will be met with respect to financial statement preparation and presentation.

Limitations of Controls and Procedures

Our management, including the CEO and CFO of the Company, believes that any DCP or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Additional Information

Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2022, is available on SEDAR at www.sedar.com.

Exhibit 99.4

Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kyle Kazan, certify that:

1. I have reviewed this annual report on Form 40-F of Glass House Brands Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 31, 2023

By: /s/ Kyle Kazan
Name: Kyle Kazan
Chief Executive Officer

Exhibit 99.5

Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark Vendetti, certify that:

1. I have reviewed this annual report on Form 40-F of Glass House Brands Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 31, 2023

By: /s/ Mark Vendetti
Name: Mark Vendetti
Chief Financial Officer

Exhibit 99.6

Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350

As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 40-F of Glass House Brands Inc., a corporation organized under the laws of British Columbia (the "Company"), for the period ending December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2023

/s/ Kyle Kazan
Kyle Kazan
Chief Executive Officer (principal executive officer)

Dated: March 31, 2023

/s/ Mark Vendetti
Mark Vendetti
Chief Financial Officer (principal financial officer)

Exhibit 99.7

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Annual Report on Form 40-F of Glass House Brands Inc. of our report dated March 31, 2023, relating to the consolidated financial statements of Glass House Brands Inc.

/s/ Macias Gini & O'Connell LLP

Los Angeles, California
March 31, 2023