# GLASS HOUSE BRANDS INC.

## UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## AS OF

## MARCH 31, 2022 AND DECEMBER 31, 2021

## AND FOR THE THREE MONTHS ENDED

## MARCH 31, 2022 AND 2021

**GLASS HOUSE BRANDS INC.**
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# GLASS HOUSE BRANDS INC.
## Condensed Consolidated Balance Sheets
## As of March 31, 2022 and December 31, 2021

| | 2022 | 2021 |
|---|---|---|
| | Unaudited | |
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ 21,832,748 | $ 51,066,831 |
| Restricted Cash | 3,000,000 | 3,000,000 |
| Accounts Receivable, Net | 2,518,337 | 2,893,911 |
| Prepaid Expenses and Other Current Assets | 7,609,991 | 5,562,963 |
| Inventory | 7,599,411 | 6,596,302 |
| Total Current Assets | 42,560,487 | 69,120,007 |
| Operating Lease Right-of-Use Assets, Net | 3,016,221 | 3,077,730 |
| Investments | 6,942,768 | 7,196,359 |
| Property, Plant and Equipment, Net | 206,107,011 | 195,798,524 |
| Intangible Assets, Net | 5,590,333 | 5,629,833 |
| Goodwill | 4,918,823 | 4,918,823 |
| Deferred Tax Asset | 705,542 | - |
| Other Assets | 3,308,328 | 2,339,993 |
| **TOTAL ASSETS** | **$ 273,149,513** | **$ 288,081,269** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **LIABILITIES:** | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Liabilities | $ 7,319,268 | $ 10,215,004 |
| Income Taxes Payable | 5,480,927 | 5,038,983 |
| Contingent Shares and Earnout Liabilities | 44,909,942 | 38,428,700 |
| Shares Payable | 2,756,830 | 2,756,830 |
| Current Portion of Operating Lease Liabilities | 286,457 | 269,154 |
| Current Portion of Notes Payable | 38,537 | 37,986 |
| Total Current Liabilities | 60,791,961 | 56,746,657 |
| Operating Lease Liabilities, Net of Current Portion | 2,790,286 | 2,865,480 |
| Other Non-Current Liabilities | 1,540,427 | 1,449,045 |
| Deferred Tax Liabilities | - | 1,330,815 |
| Notes Payable, Net of Current Portion | 45,068,133 | 44,817,436 |
| **TOTAL LIABILITIES** | **110,190,807** | **107,209,433** |
| **SHAREHOLDERS' EQUITY:** | | |
| Multiple Voting Shares (No par value, unlimited shares authorized, 4,754,979 shares issued and outstanding as of March 31, 2022 and December 31, 2021, respectively) | - | - |
| Subordinate Voting Shares (No par value, unlimited shares authorized, 40,752,991 and 38,563,405 shares issued and outstanding as of March 31, 2022 and December 31, 2021, respectively) | - | - |
| Exchangeable Shares (No par value, unlimited shares authorized, 16,447,444 and 18,256,784 shares issued and outstanding as of March 31, 2022 and December 31, 2021, respectively) | - | - |
| Additional Paid-In Capital | 243,809,534 | 241,896,900 |
| Accumulated Deficit | (80,630,458) | (60,827,290) |
| Total Shareholders' Equity Attributable to the Company | 163,179,076 | 181,069,610 |
| Non-Controlling Interest | (220,370) | (197,774) |
| **TOTAL SHAREHOLDERS' EQUITY** | **162,958,706** | **180,871,836** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **$ 273,149,513** | **$ 288,081,269** |

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

# GLASS HOUSE BRANDS INC.
## Unaudited Condensed Interim Consolidated Statements of Operations
## For the Three Months Ended March 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| Revenues, Net | $ 13,972,371 | $ 15,240,281 |
| Cost of Goods Sold | 11,633,143 | 9,798,285 |
| Gross Profit | 2,339,228 | 5,441,996 |
| Operating Expenses: | | |
| General and Administrative | 9,423,297 | 5,835,731 |
| Sales and Marketing | 865,760 | 488,535 |
| Professional Fees | 2,570,506 | 3,352,751 |
| Depreciation and Amortization | 2,607,494 | 724,454 |
| Total Operating Expenses | 15,467,057 | 10,401,471 |
| Loss from Operations | (13,127,829) | (4,959,475) |
| Other Expense (Income): | | |
| Interest Expense | 1,197,529 | 1,010,428 |
| Interest Income | - | (16,086) |
| Loss (Gain) on Investments | 353,659 | (1,388) |
| (Gain) on Change in Fair Value of Derivative Liabilities | - | (671,000) |
| Loss on Change in Fair Value of Contingent Liabilities | 6,481,242 | - |
| Loss on Disposition of Subsidiary | - | 6,090,339 |
| Other Expense, Net | 16,105 | 6,024 |
| Total Other Expense, Net | 8,048,535 | 6,418,317 |
| Loss from Operations Before Provision for Income Tax Expense | (21,176,364) | (11,377,792) |
| Provision for Income Tax (Benefit) Expense | (1,350,600) | 1,776,001 |
| Net Loss | **(19,825,764)** | **(13,153,793)** |
| Net Loss Attributable to Non-Controlling Interest | (22,596) | - |
| **Net Loss Attributable to the Company** | **$ (19,803,168)** | **$ (13,153,793)** |
| **Loss Per Share - Basic and Diluted Attributable to the Company** | **$ (0.35)** | **$ (0.55)** |
| **Weighted-Average Shares Outstanding - Basic and Diluted** | **57,200,435** | **23,971,614** |

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

# GLASS HOUSE BRANDS INC.
## Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders’ Equity
## For the Three Months Ended March 31, 2022 and 2021

| | 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 | - | - | - | - | - | - | - | - | (13,153,793) | (13,153,793) | - | (13,153,793) |
| Share-Based Compensation from Options | - | - | - | - | - | - | - | 1,381,462 | - | 1,381,462 | - | 1,381,462 |
| Share-Based Compensation from Common Shares (1) | - | - | 48,682 | - | - | - | - | 225,000 | - | 225,000 | - | 225,000 |
| Cancellation of Shares for Issuance of Convertible Debt (1) | - | - | 731,369 | - | - | - | - | 3,380,278 | - | 3,380,278 | - | 3,380,278 |
| **BALANCE AS OF MARCH 31, 2021** | **-** | **-** | **23,971,614** | **-** | **$ -** | **-** | **$ -** | **$ 47,921,142** | **$ (29,813,271)** | **$ 18,107,871** | **$ -** | **$ 18,107,871** |
| **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 | - | - | - | - | - | - | - | - | (19,803,168) | (19,803,168) | (22,596) | (19,825,764) |
| Share-Based Compensation from Options and RSU's | - | - | - | - | - | - | - | 2,682,457 | - | 2,682,457 | - | 2,682,457 |
| Issuance for Conversion of Exchangeable Shares | - | 1,809,340 | (1,809,340) | - | - | - | - | - | - | - | - | - |
| Shares Issued for Exercise of Options | - | 129,736 | - | - | - | - | - | 99,898 | - | 99,898 | - | 99,898 |
| Shares Issued for Exercise of Restricted Stock Units | - | 250,510 | - | - | - | - | - | - | - | - | - | - |
| Distributions to Preferred Shareholders | - | - | - | - | - | - | - | (869,721) | - | (869,721) | - | (869,721) |
| **BALANCE AS OF MARCH 31, 2022** | **4,754,979** | **40,752,991** | **16,447,444** | **-** | **$ -** | **-** | **$ -** | **$ 243,809,534** | **$ (80,630,458)** | **$ 163,179,076** | **$ (220,370)** | **$ 162,958,706** |

(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.

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

## GLASS HOUSE BRANDS INC.
### Unaudited Condensed Interim Consolidated Statements of Cash Flows
### For the Three Months Ended March 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net Loss | $ (19,825,764) | $ (13,153,793) |
| Adjustments to Reconcile Net Loss | | |
| to Net Cash Used in Operating Activities: | | |
| Deferred Tax Recovery | (2,036,357) | (57,797) |
| Bad Debt Expense | 80,110 | - |
| Interest Capitalized to Notes Payable | - | 475,806 |
| Interest Income Capitalized to Principal Balance | - | (16,085) |
| Depreciation and Amortization | 2,607,494 | 724,454 |
| Loss (Gain) on Investments | 353,659 | (1,388) |
| Loss on Disposition of Subsidiary | - | 6,070,902 |
| Non-Cash Operating Lease Costs | 3,618 | 167 |
| Accretion of Debt Discount and Loan Origination Fees | 260,540 | 466,423 |
| (Gain) on Change in Fair Value of Derivative Liabilities | - | (671,000) |
| Loss on Change in Fair Value of Contingent Liabilities | 6,481,242 | - |
| Share-Based Compensation | 2,682,457 | 1,606,462 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | 295,464 | 1,510,363 |
| Prepaid Expenses and Other Current Assets | (2,047,028) | (716,370) |
| Inventory | (1,003,109) | (1,621,608) |
| Other Assets | (968,335) | 27,438 |
| Accounts Payable and Accrued Liabilities | (2,895,736) | 2,628,153 |
| Income Taxes Payable | 441,944 | 1,483,186 |
| Other Non-Current Liabilities | 91,382 | 299,563 |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(15,478,419)** | **(945,124)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchases of Property and Equipment | (12,876,481) | (1,159,860) |
| Contributions to Equity Method Investments | (100,068) | (350,001) |
| Distributions Received from Equity Method Investments | - | 66,000 |
| Cash Paid for Business Acquisition, Net of Cash and Cash Equivalents Acquired | - | (284,028) |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(12,976,549)** | **(1,727,889)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from the Issuance of Notes Payable, Third Parties and Related Parties | - | 10,305,806 |
| Payments on Notes Payable, Third Parties and Related Parties | (9,292) | (557,414) |
| Cash Received Upon Exercise of Options | 99,898 | - |
| Distributions to Preferred Shareholders | (869,721) | - |
| **NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES** | **(779,115)** | **9,748,392** |
| **NET (DECREASE) INCREASE IN CASH, RESTRICTED CASH AND CASH EQUIVALENTS** | **(29,234,083)** | **7,075,379** |
| Cash, Restricted Cash and Cash Equivalents, Beginning of Period | 54,066,831 | 4,535,251 |
| **CASH, RESTRICTED CASH AND CASH EQUIVALENTS, END OF PERIOD** | **$ 24,832,748** | **$ 11,610,630** |

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

## GLASS HOUSE BRANDS INC.
### Unaudited Condensed Interim Consolidated Statements of Cash Flows
### For the Three Months Ended March 31, 2022 and 2021

| | | 2022 | | 2021 |
|---|---|---|---|---|
| **SUPPLEMENTAL DISCLOSURE FOR CASH FLOW INFORMATION** | | | | |
| Cash Paid for Interest | $ | 1,369,055 | $ | 174,374 |
| Cash Paid for Taxes | $ | 152,431 | $ | 141,146 |
| | | | | |
| **NON-CASH INVESTING AND FINANCING ACTIVITIES:** | | | | |
| Net Assets Acquired From an Acquisition, Excluding Cash Acquired | $ | - | $ | 5,709,615 |
| Proceeds Deposited Into Escrow Account | $ | - | $ | 2,029,932 |
| Purchase of Property and Equipment from Proceeds of Note Payable, Third Parties | $ | - | $ | 125,356 |
| Recognition of Right-of-Use Assets for Operating Leases | $ | - | $ | 1,160,730 |
| Derivative Liability Incurred Upon Issuance of Convertible Debt | $ | - | $ | 182,000 |

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

## 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 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 ("Subordinate Voting Shares"), restricted voting shares ("Restricted Voting Shares") and limited voting shares ("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. (the "Neo Exchange"), 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.

### *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 currently 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 three months ended March 31, 2022, the Company had an accumulated deficit of $80,630,458, a net loss attributable to the Company of $19,803,168 and net cash used in operating activities of $15,478,419. 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 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 at terms acceptable to the Company.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and critical estimates applied by the Company in these Unaudited Condensed Interim Consolidated Financial Statements are the same as those applied in the Company's audited Consolidated Financial Statements and accompanying notes for the year ended December 31, 2021 and 2020, unless disclosed otherwise below. The Company's audited Consolidated Financial Statements for the year ended December 31, 2021 and 2020, filed on March 22, 2022, can be found on SEDAR at www.sedar.com.

### *Basis of Preparation*

The accompanying Unaudited Condensed Interim 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") for interim financial information. The Unaudited Condensed Interim Consolidated Financial Statements include the accounts and operations of the Company and those of the Company's subsidiaries in which the Company has a controlling financial interest, if any, after elimination of intercompany accounts and transactions. 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 March 31, 2022 and December 31, 2021, the consolidated results of operations, changes in shareholders' equity and cash flows for the three months ended March 31, 2022 and 2021 have been included.

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

The accompanying Unaudited Condensed Interim Consolidated Financial Statements do not include all of the information required for full annual financial statements. Accordingly, certain information, footnotes and disclosures normally included in the annual financial statements, prepared in accordance with GAAP, have been condensed or omitted. The financial data presented herein should be read in conjunction with the Company's audited Consolidated Financial Statements for the year ended December 31, 2021, and the related notes thereto, and have been prepared using the same accounting policies described therein.

***Basis of Consolidation***

These Unaudited Condensed Interim Consolidated Financial Statements as of March 31, 2022 and for the three months ended March 31, 2022 and 2021 and audited Consolidated Financial Statements as of December 31, 2021 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in ASC 810 *"Consolidation"*. 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.

***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.

***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 comparative amounts presented on the statement of cash flows related to non-cash operating lease costs and cash payments on operating lease liabilities have been reclassified to conform with current period presentation. There were no impacts on net loss or cash flows for the periods presented.

***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 March 31, 2022 and December 31, 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 senior term loan agreement. See "*Note 11 – Notes Payable*" for further discussion.

***Loss per Share***

The Company calculates basic loss per share by dividing net loss by the weighted-average number of Equity Shares (including Exchangeable Shares (as defined herein) on an as-exchanged basis) outstanding during the period. Multiple Voting Shares (as defined herein) are excluded in calculating loss per share as they do not participate in profit and loss. Diluted loss per share is the same as basic loss per share as the issuance of shares on the exercise of convertible debentures, warrants and share options are anti-dilutive.

***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 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 Financial Statements.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

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

***Recently Issued Accounting Standards***

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 is 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.

## 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 with balances in excess of the Federal Deposit Insurance Corporation limits, respectively. The failure of a bank 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 March 31, 2022 and December 31, 2021, the Company has not experienced any losses with regards to its cash balances.

The Company provides credit 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. For the three months ended March 31, 2022 and 2021, there was one customer that comprised 28% and two customers that comprised 30%, respectively, of the Company's revenues. As of March 31, 2022, the one customer had a balance due to the Company of $1,669,423. As of December 31, 2021, the same customer had a balance due to the Company of $2,403,097.

## 4. INVENTORY

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

| | 2022 | 2021 |
|---|---|---|
| Raw Materials | $ 1,757,917 | $ 1,325,590 |
| Work-in-Process | 3,291,861 | 2,777,244 |
| Finished Goods | 2,549,633 | 2,493,468 |
| **Total Inventory** | **$ 7,599,411** | **$ 6,596,302** |

## 5. 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.

As of March 31, 2022, activity related to investments consist of the following:

| | LOB Group, Inc. | NRO Management, LLC | SoCal Hemp JV, LLC | 5042 Venice, LLC | Lompoc TIC, LLC | TOTAL |
|---|---|---|---|---|---|---|
| **Fair Value as of December 31, 2021** | **$ 2,761,141** | **$ 2,018,949** | **$ -** | **$ 2,221,520** | **$ 194,749** | **$ 7,196,359** |
| Additions | - | - | 100,068 | | - | 100,068 |
| Gain (Loss) on Equity Method Investments | 8,960 | (315,415) | (100,068) | 60,207 | (7,343) | (353,659) |
| **Fair Value as of March 31, 2022** | **$ 2,770,101** | **$ 1,703,534** | **$ -** | **$ 2,281,727** | **$ 187,406** | **$ 6,942,768** |

During the three months ended March 31, 2022 and 2021, the Company recorded net losses of $353,659 and net gains of $1,388 from equity method investments, 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.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 6. PROPERTY, PLANT AND EQUIPMENT

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

| | 2022 | 2021 |
|---|---|---|
| Land | $ 70,782,068 | $ 70,782,068 |
| Buildings | 108,024,254 | 108,024,254 |
| Furniture and Fixtures | 316,395 | 316,395 |
| Leasehold Improvements | 9,750,149 | 8,412,489 |
| Equipment and Software | 5,748,274 | 5,712,519 |
| Construction in Progress | 23,370,233 | 11,867,167 |
| **Total Property, Plant and Equipment** | 217,991,373 | 205,114,892 |
| Less Accumulated Depreciation and Amortization | (11,884,362) | (9,316,368) |
| **Property, Plant and Equipment, Net** | **$ 206,107,011** | **$ 195,798,524** |

During the three months ended March 31, 2022 and 2021, the Company recorded depreciation expense of $2,567,994 and $672,787, respectively. Additionally, during the three months ended March 31, 2022 and 2021, the Company capitalized interest to property and equipment of $432,066 and nil, respectively.

## 7. INTANGIBLE ASSETS

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

| | 2022 | 2021 |
|---|---|---|
| Definite Lived Intangible Assets | | |
| Intellectual Property | $ 790,000 | $ 790,000 |
| **Total Definite Lived Intangible Assets** | 790,000 | 790,000 |
| Less Accumulated Amortization | (248,167) | (208,667) |
| **Definite Lived Intangible Assets, Net** | **541,833** | **581,333** |
| Indefinite Lived Intangible Assets | | |
| Dispensary Licenses | 5,048,500 | 5,048,500 |
| **Total Indefinite Lived Intangible Assets** | 5,048,500 | 5,048,500 |
| **Total Intangible Assets, Net** | **$ 5,590,333** | **$ 5,629,833** |

For the three months ended March 31, 2022 and 2021, the Company recorded amortization expense related to intangible assets of $39,500 and $51,667, respectively.

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

| **December 31:** | |
|---|---|
| 2022 (remaining) | $ 118,500 |
| 2023 | 158,000 |
| 2024 | 145,333 |
| 2025 | 120,000 |
| Total Future Amortization Expense | $ 541,833 |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

| | 2022 | 2021 |
|---|---|---|
| Accounts Payable | $ 2,821,372 | $ 4,777,435 |
| Accrued Liabilities | 2,511,872 | 2,418,664 |
| Accrued Payroll and Related Liabilities | 1,081,925 | 1,699,253 |
| Sales Tax and Cannabis Taxes | 904,099 | 1,319,652 |
| **Total Accounts Payable and Accrued Liabilities** | **$ 7,319,268** | **$ 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 March 31, 2022 and December 31, 2021 was $346,000 and $380,000, respectively.

## 9. CONTINGENT SHARES AND EARNOUT LIABILITIES

As of March 31, 2022, activity related to the contingent shares and earnout liabilities consist of the following:

| | 2022 | |
|---|---|---|
| **Balance at December 31, 2021** | $ 38,428,700 | |
| Change in Fair Value of Contingent Liabilities | 6,481,242 | |
| **Balance at March 31, 2022** | **$ 44,909,942** | **(i, ii, iii)** |

As of March 31, 2022, the following transactions are related to the contingent shares and earnout liabilities:

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

Upon closing of the business combination of Mercer Park and Glass House Brands, Inc. on June 29, 2021 (the "Business Combination"), 1,008,975 Equity Shares issued to the sponsor of Mercer Park were locked up by 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. 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 March 31, 2022 and December 31, 2021, the value of the contingent earnout was $3,086,942 and $2,372,200, respectively, and included as a component of contingent shares and earnout liabilities in the accompanying Condensed Consolidated Balance Sheets. The increase in fair value of $714,742 was recorded as a component of change in fair value of contingent liabilities during the three months ended March 31, 2022 and is included in the accompanying Unaudited Condensed Interim Consolidated Statements of Operations. During the three months ended March 31, 2021, there was no such liability or change in fair value.

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 Equity Shares, the Exchangeable Shares, vested stock options and vested RSU's as of March 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 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 March 31, 2022, no Equity Shares were issued in connection with these earnouts.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 9. CONTINGENT SHARES AND EARNOUT LIABILITIES *(Continued)*

### (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 Equity Shares, if certain conditions and financial metrics are met. As of March 31, 2022 and December 31, 2021, the fair value of the contingent earnout was $24,288,000 and $22,571,000, respectively, and included as a component of contingent shares and earnout liabilities in the accompanying Condensed Consolidated Balance Sheets. The increase in fair value of $1,717,000 was recorded as a component of change in fair value of contingent liabilities during the three months ended March 31, 2022 and is included in the accompanying Unaudited Condensed Interim Consolidated Statements of Operations. During the three months ended March 31, 2021, there was no such liability or change in fair value. 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 consideration for the Option Right, the Company issued 6,500,000 Equity Shares 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 March 31, 2022 and December 31, 2021, the fair value of the contingent payment was $17,535,000 and $13,485,500, respectively, and included as a component in contingent shares and earnout liabilities in the accompanying Condensed Consolidated Balance Sheets. The Company recorded an increase in fair value of $4,049,500 during the three months ended March 31, 2022 and is included as component of change in fair value of contingent liabilities in the accompanying Unaudited Interim Condensed Consolidated Statements of Operations. During the three months ended March 31, 2021, there was no such liability or change in fair value. 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.

## 10. LEASES

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

| | 2022 | 2021 |
|---|---|---|
| Operating Lease Cost | $ 191,287 | $ 186,664 |
| Short-Term Lease Costs | 166,945 | 122,753 |
| **Total Lease Expenses** | **$ 358,232** | **$ 309,417** |

| | 2022 | 2021 |
|---|---|---|
| Cash Paid for Amounts Included in the Measurement of Lease Liabilities: | | |
| Operating Cash Flows from Operating Leases | $ 187,671 | $ 186,497 |
| Non-Cash Additions to Right-of-Use Assets and Lease Liabilities: | | |
| Recognition of Right-of-Use Assets for Operating Leases | $ - | $ 1,160,730 |
| Weighted-Average Remaining Lease Term (Years) - Operating Leases | 7.28 | 7.00 |
| Weighted-Average Discount Rate - Operating Leases | 17.00% | 17.00% |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 10. LEASES *(Continued)*

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

| December 31: | Third Parties | Related Parties | Total |
|---|---|---|---|
| 2022 (remaining) | $ 284,733 | $ 294,921 | $ 579,654 |
| 2023 | 384,088 | 396,783 | 780,871 |
| 2024 | 384,088 | 393,597 | 777,685 |
| 2025 | 365,566 | 320,004 | 685,570 |
| 2026 | 310,000 | 320,004 | 630,004 |
| Thereafter | 1,320,833 | 560,007 | 1,880,840 |
| Total Future Minimum Lease Payments | 3,049,308 | 2,285,316 | 5,334,624 |
| Less Imputed Interest | (1,410,088) | (847,793) | (2,257,881) |
| **Total Amount Representing Present Value** | **1,639,220** | **1,437,523** | **3,076,743** |
| Less Current Portion of Operating Lease Liabilities | (118,606) | (167,851) | (286,457) |
| **Operating Lease Liabilities, Net of Current Portion** | **$ 1,520,614** | **$ 1,269,672** | **$ 2,790,286** |

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 March 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 $28,000 and expire through July 2031. 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.

## 11. NOTES PAYABLE

As of March 31, 2022 and December 31, 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 |
| Other - Vehicle Loans | 229,543 | 238,835 |
| **Total Notes Payable** | 50,229,543 | 50,238,835 |
| Less Unamortized Debt Issuance Costs and Loan Origination Fees | (5,122,873) | (5,383,413) |
| Net Amount | $ 45,106,670 | $ 44,855,422 |
| Less Current Portion of Notes Payable | (38,537) | (37,986) |
| **Notes Payable, Net of Current Portion** | **$ 45,068,133** | **$ 44,817,436** |

On December 9, 2021 ("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 March 31, 2022 and December 31, 2021, the interest rate was 10% and 10%, respectively.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 11. NOTES PAYABLE *(Continued)*

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 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 Condensed Consolidated Balance Sheets as of March 31, 2022 and December 31, 2021. Additionally, the Company's real property held in Glass House Farm LLC, Magu Farm LLC and GH Camarillo LLC was pledged as security.

The Credit Agreement contains certain financial covenant which require the Company to maintain liquidity in excess of $10,000,000 at all times. As of March 31, 2022 and December 31, 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 which will be measured quarterly beginning with the quarter ending December 31, 2022, as well as achieve completion of phase one project work at the Camarillo facility on or before July 31, 2022. Such covenants were not in effect as of December 31, 2021.

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

| December 31: | Principal Payments |
|---|---|
| 2022 (remaining) | $ 28,693 |
| 2023 | 665,237 |
| 2024 | 7,542,622 |
| 2025 | 7,545,148 |
| 2026 | 7,547,824 |
| Thereafter | 26,900,019 |
| Total Future Minimum Principal Payments | **$ 50,229,543** |

## 12. SHAREHOLDERS' EQUITY

As of March 31, 2022 and December 31, 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 are entitles the holder thereof to 50 votes per Multiple Voting Share. Multiple Voting Shares are not entitled to dividends. 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 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 Limited Voting Shares are not entitled to vote for the election of directors of the Company. The Subordinate Voting Shares and 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 Limited Voting Shares do not have any entitlement to vote in respect of the election for directors of the Company.

## 12. SHAREHOLDERS' EQUITY *(Continued)*

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 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 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 (i) each Exchangeable Share has 1.1 votes per share until June 29, 2022, after which they will have one vote per share, and (ii) 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 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, 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 Unaudited Condensed Interim 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.

***Preferred Shares of GH Group, Inc.***

The authorized total number of preferred shares (the "GH Group Preferred Shares") of GH Group, Inc. ("GH Group") is 50,000,000. As of March 31, 2022 and December 31, 2021, there was 18,515,491 GH Group Preferred Shares issued and outstanding. Holders of GH Group Preferred Shares are entitled to notice of and to 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 include a 15% cumulative dividend rate, which is increased by 5% in the year following the first anniversary of the date of issuance. Dividends are payable when and if declared by GH Group's board of directors. The GH Group Preferred Shares have a conversion option to convert the Preferred Shares into Class A Common Stock of GH Group within 60 days after the issuance by the holder. In the event of a liquidation, voluntary or involuntary, dissolution or winding-up of GH Group, the holders of the GH Group Preferred Shares outstanding are entitled to be paid out of the assets of GH Group available for distribution to it stockholders. GH Group has the right to redeem all or some of the Preferred Shares from a holder for an amount equal to the Liquidation Value and all unpaid accrued and accumulated dividends. In accordance with the provisions above, the Company recorded distributions to the holders of Preferred Shares in the amount of $869,721 for the three months ended March 31, 2022. No distributions were recognized for the three months ended March 31, 2021.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 12. SHAREHOLDERS' EQUITY *(Continued)*

### *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 three months ended March 31, 2022 and 2021, of $22,596 and nil, respectively.

### *Share Transactions During the Period*

During the three months ended March 31, 2022, the Company issued 129,736 Equity Shares to various individuals for the exercise of stock options. In exchange for the exercise of stock options, the Company received $99,898 in cash.

During the three months ended March 31, 2022, the Company issued 250,510 Equity Shares to various individuals for the conversion of Restricted Stock Units.

During the three months ended March 31, 2022, holders of Exchangeable Shares exchanged 1,809,340 Exchangeable Shares for Equity Shares.

## 13. SHARE-BASED COMPENSATION

The Company has an 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, "Awards"). Share-based compensation expenses are recorded as a component of general and administrative costs. The maximum number of Awards that may be issued under the Incentive Plan is 10% of the fully-diluted Equity Shares of the Company (inclusive of the 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 the 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 Awards available for grant will increase as the number of issued and outstanding Equity Shares increases. Granting and vesting of 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*

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, 2021** | 2,087,784 | $ 2.78 |
| Exercised | (129,736) | $ 2.30 |
| Forfeited | (151,889) | $ 2.56 |
| **Balance as of March 31, 2022** | **1,806,159** | **$ 2.83** |

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

## 13. SHARE-BASED COMPENSATION *(Continued)*

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

| Security Issuable | Exercise Price | Expiration Date | Stock Options Outstanding |
|---|---|---|---|
| Subordinate Voting Shares | $2.26 | October 2024 | 757,071 |
| Subordinate Voting Shares | $3.08 | April 2025 | 160,172 |
| Subordinate Voting Shares | $3.08 | January 2026 | 780,221 |
| Subordinate Voting Shares | $4.60 | October 2026 | 108,695 |
| | | | **1,806,159** |

As of March 31, 2022 and December 31, 2021, options vested and exercisable was 1,054,380 and 1,000,717, respectively. For the three months ended March 31, 2022 and 2021, the Company recognized $497,367 and $1,381,462, respectively, in share-based compensation expense related to these stock options.

As of March 31, 2022 and December 31, 2021, options outstanding have a weighted-average remaining contractual life of 2.8 years and 3.4 years, respectively.

***Restricted Stock Units***

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

| | Number of Restricted Stock |
|---|---|
| **Balance as of December 31, 2021** | 3,230,948 |
| Granted | 667,204 |
| Converted | (250,510) |
| Forfeited | (267,017) |
| **Balance as of March 31, 2022** | **3,380,625** |

During the three months ended March 31, 2022 and 2021, the Company recognized $2,185,090 and nil, respectively, in stock-based compensation related to restricted stock units. The Company recognizes the exchanged and converted from options as stock-based compensation related to restricted stock units. The fair value of the restricted stock units issued during the three months ended March 31, 2022 were determined using the Equity Shares at the time of grant.

***Stock Appreciation Right Units of GH Group***

During the year ended December 31, 2021, GH Group issued 230,752 stock appreciation rights ("SARs units") to various employees of GH Group. The SARs units vest 33% one year after the grant date and the remaining 67% vest monthly over two years. Vested and exercised SAR units will receive cash in the amount of the SARs units exercised multiplied by the excess of the fair market value of an Equity Share over the stated strike price of the SAR unit. As the SARs units are cash-settled, the Company recognizes the value of the SAR units as liabilities which are included in accounts payable and accrued liabilities in the Consolidated Balance Sheets. As of March 31, 2022 and December 31, 2021, the Company recorded a liability of $104,107 and $35,442, respectively.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 13. SHARE-BASED COMPENSATION *(Continued)*

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

| | Number of Stock Appreciation Rights Units |
|---|---|
| **Balance as of December 31, 2021** | 159,736 |
| Forfeited | (30,194) |
| **Balance as of March 31, 2022** | **129,542** |

During the three months ended March 31, 2022 and 2021, the Company recognized $68,665 and nil, respectively, in expense related to the SARs units.

***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 March 31, 2022 and December 31, 2021** | **35,418,078** | **$ 11.29** |

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

| Security Issuable | Exercise Price | Expiration Date | Warrants Outstanding | Warrants Exercisable |
|---|---|---|---|---|
| Subordinate Voting Shares | $11.50 | June 2026 | 28,489,500 | 28,489,500 |
| Subordinate Voting Shares | $10.00 | June 2024 | 4,928,578 | 4,928,578 |
| Subordinate Voting Shares | $11.50 | June 2026 | 2,000,000 | 2,000,000 |
| | | | **35,418,078** | **35,418,078** |

There were no warrants issued in during the three months ended March 31, 2022 that required fair valuing using level 3 inputs.

As of March 31, 2022 and December 31, 2021, warrants outstanding have a weighted-average remaining contractual life of 3.8 years and 4.2 years, respectively.

## 14. LOSS PER SHARE

The following is a reconciliation for the calculation of basic and diluted loss per share for the three months ended March 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Net Loss Attributable to the Company | $ (19,803,168) | $ (13,153,793) |
| Weighted-Average Shares Outstanding - Basic and Diluted | 57,200,435 | 23,971,614 |
| **Loss Per Share - Basic and Diluted Attributable to the Company** | **$ (0.35)** | **$ (0.55)** |

Diluted loss per share is the same as basic loss per share as the issuance of shares on the exercise of convertible debentures, warrants and share options are anti-dilutive.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 15. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES

Provision for income taxes consists of the following for the three months ended March 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Current: | | |
| Federal | $ 452,913 | $ 1,399,386 |
| State | 232,844 | 434,412 |
| Total Current | 685,757 | 1,833,798 |
| Deferred: | | |
| Federal | (1,536,402) | (44,805) |
| State | (499,955) | (12,992) |
| Total Deferred | (2,036,357) | (57,797) |
| **Total Provision for Income Tax (Benefit) Expense** | **$ (1,350,600)** | **$ 1,776,001** |

The Company has used a discrete effective tax rate method to calculate taxes for the fiscal three-month periods ended March 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 three-month periods ended March 31, 2022 and 2021.

As the Company operates in the 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 ("COGS") of its product. This results in permanent differences between ordinary and necessary business expenses deemed nonallowable under Section 280E, and the Company deducts all operating expenses on its state tax returns.

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 March 31, 2022 and December 31, 2021, potential benefits of $1,540,428 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 March 31, 2022, the Company's federal tax returns since 2019 and state tax returns since 2018 are still subject to adjustment upon audit. No 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.

## 16. 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 March 31, 2022 and December 31, 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.

**16. COMMITMENTS AND CONTINGENCIES** *(Continued)*

***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, $750,000 for the 5th year). During the three months ended March 31, 2022 and 2021, the Company recognized expenses related to these royalties in the amount of $93,750 and $93,750, respectively. As of March 31, 2022 and December 31, 2021, the Company has $281,250 and $328,125, respectively, due under this royalty agreement which are included in accounts payable and accrued liabilities in the consolidated balance sheets.

***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 March 31, 2022 and December 31, 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 March 31, 2022 and December 31, 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***

Element 7 Acquisition 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 membership or equity interests held by E7 in seventeen holding companies that hold the rights to 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 set forth in the E7 License Agreement. In November 2021, GH Group terminated the E7 Agreements based on a breach of contractual terms, and as of December 31, 2021, GH Group had converted certain pre-closing financing payment and consulting fees into notes receivable in the amount of $2,274,167. As of March 31, 2022 and December 31, 2021, the notes receivable was fully reserved by the Company. As of December 31, 2021, the Company had received membership or equity interests in one 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 contractually committed licenses (the "Joint Litigation Agreement"). GH Group and APB jointly refiled a complaint against Element 7 10 in the County of Los Angeles, Central District (Case No. 22STCV09323) (the "Element 7 Proceeding"). If either GH Group or APB is successful in the Element 7 Proceeding, the Company expects to have a path to achieve transfer of the existing licenses at issue.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 16. COMMITMENTS AND CONTINGENCIES *(Continued)*

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 license or licensed entity interests recovered by APB from Element 7 that were included in the E7 Merger Agreement, that have either a state or local permit and a valid lease, or a have 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 license or licensed entity, paid in Equity Shares at the 10-day volume weighted average price 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 licenses or licensed entity outside of the foregoing groups, and the right to terminate the Joint Litigation Agreement at any time.

## 17. 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 three months ended March 31, 2022 and 2021 were $60,873 and $60,873, 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 three months ended March 31, 2022 and 2021 were $18,494 and $17,338, 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 three months ended March 31, 2022 and 2021 were $32,580 and $32,580, respectively.

## 18. REVENUES, NET

Revenues are disaggregated as follows for the three months ended March 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Retail | $ 4,858,233 | $ 4,982,885 |
| Wholesale | 9,114,138 | 10,257,396 |
| **Revenues, Net** | **$ 13,972,371** | **$ 15,240,281** |

## 19. SUBSEQUENT EVENTS

On December 17, 2021, the Company enter into a definitive agreement to acquire all of the issued and outstanding shares and other securities of Plus Products Holdings Inc. ("PLUS") from Plus Product Inc., a leading cannabis edibles company in California. The definitive agreement was amended on January 17, 2022 and amended and restated on March 25, 2022. The Company acquired PLUS for approximately $33 million through the issuance of combination of unsecured convertible debenture notes, Equity Shares and restricted share units of the Company (the "PLUS Acquisition"). The PLUS Acquisition closed in April 2022.

In April 2022, the Company purchased property in Eureka California for $375,000. The Company paid cash of approximately $146,000 and financed the remaining portion. The note payable bears interest at 5 percent and matures through April 2027.

On April 25, 2022, the Company entered into a binding Letter of Intent ("LOI") to acquire the remaining equity and property ownership interests of The Pottery, a retail dispensary located in Los Angeles. The Company currently owns 50% of the equity and property ownership interests in the dispensary.

Under the terms of the LOI, the Company will acquire all of the equity interests of N.R.O. Management, LLC, and The Pottery, Inc. for 500,000 Equity Shares set at a fixed price of $6 per share. The shares will have a one-year lock-up period from the closing date. In addition, the Company or its designee has committed to acquire all of the remaining undivided ownership interests in the underlying real property for $3,005,000, in cash.

Closing of the acquisition is subject to certain customary closing conditions for transactions of this nature – including, among others, the approval of the Neo Exchange – and is expected to occur in the second quarter of 2022.

In the event that the Company does not close the real estate purchase, the sellers will have the option to purchase the Company's 50% undivided interest in the real property for $3 million, in cash. The Company is currently assessing the impact and accounting of this transaction.

On May 12, 2022, the Company executed definitive agreements (the "Agreements") to acquire 100% of the equity interests in three California retail dispensaries operating under the name of Natural Healing Center: two operating retail dispensaries and one retail dispensary slated to open in Q3 2022 for approximately $23.4 million, through a combination of approximately $5.7 million in cash and the remainder in Equity Shares. The two operating retail dispensaries are located in Lemoore, California and Morro Bay, California. The third location, currently under construction and located in Turlock, California, is expected to open in Q3 2022. The Company expects to complete the acquisition of the Turlock dispensary upon its opening. Calculation and payment of consideration for the acquisition of 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 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 is currently assessing the impact and accounting of this transaction.

In conjunction with the acquisition of 100% of the equity interests in the three retail dispensaries on May 12, 2022, the Company entered into an amendment of its senior secured term loan agreement administered by the Senior Secured Lender, as administrative agent, for an additional draw of $10.0 million (the "Incremental Term Loan") to fund in part such acquisition. The Incremental Term Loan bears a 10% interest rate and matures on 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.