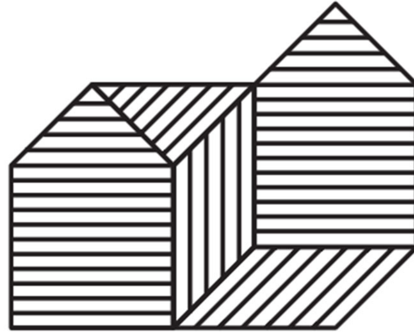

GLASS HOUSE BRANDS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2023 AND 2022

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, 2023 and 2022, 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, 2023 and 2022, 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.

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

/s/ Macias Gini & O'Connell LLP

Los Angeles, California
April 1, 2024
PCAOB ID Number 324

GLASS HOUSE BRANDS INC.
Consolidated Balance Sheets
As of December 31, 2023 and 2022
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	2023	2022
ASSETS		
Current Assets:		
Cash	$ 29,524,252	$ 11,143,502
Restricted Cash	3,000,000	3,000,000
Accounts Receivable, Net	3,979,135	4,788,748
Prepaid Expenses and Other Current Assets	3,873,399	7,756,072
Inventory	8,839,537	10,950,071
Notes Receivable	-	1,255,843
Total Current Assets	49,216,323	38,894,236
Operating Lease Right-of-Use Assets, Net	8,959,645	10,847,642
Finance Lease Right-of-Use Assets, Net	1,900,183	285,971
Long Term Investments	2,327,043	4,246,192
Property, Plant and Equipment, Net	215,686,369	216,430,924
Intangible Assets, Net	21,212,980	35,921,835
Goodwill	-	37,797,301
Deferred Tax Asset, Net	-	1,512,332
Other Assets	4,472,454	4,692,135
TOTAL ASSETS	**$ 303,774,997**	**$ 350,628,568**
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	$ 26,931,887	$ 21,969,516
Income Taxes Payable	7,878,991	7,601,074
Contingent Shares and Earnout Liabilities	34,589,000	14,656,666
Shares Payable	8,569,594	8,588,915
Current Portion of Operating Lease Liabilities	1,452,472	1,077,971
Current Portion of Finance Lease Liabilities	386,779	66,790
Current Portion of Notes Payable	7,550,324	40,237
Total Current Liabilities	87,359,047	54,001,169
Operating Lease Liabilities, Net of Current Portion	7,703,968	9,859,232
Finance Lease Liabilities, Net of Current Portion	1,519,649	214,017
Other Non-Current Liabilities	5,443,818	2,800,823
Notes Payable, Net of Current Portion	56,512,600	62,618,711
TOTAL LIABILITIES	**158,539,082**	**129,493,952**
MEZZANINE NON-CONTROLLING INTEREST:		
GH Group, Inc. Preferred Series B Shares (no par value, 55,000 shares authorized, 49,969 shares issued and outstanding as of December 31, 2023 and December 31, 2022)	57,545,155	51,774,193
GH Group, Inc. Preferred Series C Shares (no par value, 5,000 shares authorized, 5,000 and 4,700 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively)	5,608,093	4,759,925
GH Group, Inc. Preferred Series D Shares (no par value, 15,000 shares authorized, 15,000 and nil shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively)	15,000,000	-
SHAREHOLDERS' EQUITY:		
Multiple Voting Shares (No par value, unlimited shares authorized, 4,754,979 shares issued and outstanding as of December 31, 2023 and December 31, 2022)	-	-
Subordinate Voting Shares (No par value, unlimited shares authorized, 61,986,686 and 55,653,855 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively)	-	-
Exchangeable Shares (No par value, unlimited shares authorized, 8,953,951 and 12,566,550 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively)	-	-
Additional Paid-In Capital	280,695,032	261,527,245
Accumulated Deficit	(190,934,649)	(92,665,231)
Total Shareholders' Equity Attributable to the Company	89,760,383	168,862,014
Non-Controlling Interest	(22,677,716)	(4,261,516)
TOTAL SHAREHOLDERS' EQUITY	**145,235,915**	**221,134,616**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 303,774,997**	**$ 350,628,568**

GLASS HOUSE BRANDS INC.
Consolidated Statements of Operations
For the Years Ended December 31, 2023 and 2022
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	2023	2022
Revenues, Net	$ 160,835,847	$ 84,873,992
Cost of Goods Sold (Exclusive of Depreciation and Amortization Shown Separately Below)	79,866,972	64,162,019
Gross Profit	80,968,875	20,711,973
Operating Expenses:		
General and Administrative	52,913,911	45,574,365
Sales and Marketing	2,837,764	3,427,338
Professional Fees	7,304,308	9,951,482
Depreciation and Amortization	14,627,126	12,301,466
Impairment Expense for Goodwill	37,911,601	5,850,772
Impairment Expense for Intangible Assets	14,902,928	-
Total Operating Expenses	130,497,638	77,105,423
Loss from Operations	(49,528,763)	(56,393,450)
Other Expense (Income):		
Interest Expense	9,818,733	7,608,490
Interest Income	(45,138)	(56,468)
Loss on Equity Method Investments	2,101,649	2,006,639
Loss on Change in Fair Value of Derivative Liabilities	28,289	29,863
Loss (Gain) on Change in Fair Value of Contingent Liabilities and Shares Payable	24,399,013	(28,868,949)
Loss on Extinguishment of Debt	-	489,647
Other Expense (Income), Net	2,286,288	(252,822)
Total Other Expense (Income), Net	38,588,834	(19,043,600)
Loss from Operations Before Provision for Income Tax Expense	(88,117,597)	(37,349,850)
Provision for Income Tax Expense (Benefit)	9,943,382	(4,385,154)
Net Loss	**(98,060,979)**	**(32,964,696)**
Net Income (Loss) Attributable to Non-Controlling Interest	208,439	(61,675)
Net Loss Attributable to the Company	**$ (98,269,418)**	**$ (32,903,021)**
Loss Per Share - Basic	**$ (1.62)**	**$ (0.83)**
Loss Earnings Per Share - Diluted	**$ (1.62)**	**$ (0.83)**
Weighted-Average Shares Outstanding - Basic	**72,028,902**	**64,182,436**
Weighted-Average Shares Outstanding - Diluted	**72,028,902**	**64,182,436**

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	Subordinate Voting 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**	**$ (59,762,210)**	**$ 182,134,690**	**$ -**	**$ -**	**$ (197,774)**	**$ 181,936,916**
Net Loss	-	-	-	-	(32,903,021)	(32,903,021)	-	-	(61,675)	(32,964,696)
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 Preferred Shares	-	-	-	-	-	-	-	-	(772,718)	(772,718)
Issuance of Series B Preferred Stock and Warrants	-	-	-	7,790,939	-	7,790,939	19,467,011		-	27,257,950
Issuance of Series C Preferred Stock 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	-	-	-	-	-	-	-
Distributions to 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**	**$ (92,665,231)**	**$ 168,862,014**	**$ 51,774,193**	**$ 4,759,925**	**$ (4,261,516)**	**$ 221,134,616**

GLASS HOUSE BRANDS INC.
Consolidated Statements of Changes in Shareholders' Equity
For the Year Ended December 31, 2023
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	Units	Units	Units				$ Amount	$ Amount	$ Amount		
	Multiple Voting Shares	Equity Shares	Exchangeable Voting Shares	Additional Paid-In Capital	Accumulated Deficit	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDER	Mezzanine Non-Controlling Equity Preferred Series B	Mezzanine Non-Controlling Equity Preferred Series C	Mezzanine Non-Controlling Equity Preferred Series D	Non-Controlling Interest	TOTAL SHAREHOLDERS' EQUITY
BALANCE AS OF DECEMBER 31, 2022	**4,754,979**	**55,653,855**	**12,566,550**	**$ 261,527,245**	**$ (92,665,231)**	**$ 168,862,014**	**$ 51,774,193**	**$ 4,759,925**	**$ -**	**$ (4,261,516)**	**$ 221,134,616**
Net (Loss) Income	-	-	-	-	(98,269,418)	(98,269,418)	-	-	-	208,439	(98,060,979)
Share-Based Compensation from Options and RSU's	-	-	-	7,636,791	-	7,636,791	-	-	-	-	7,636,791
Issuance for Shares Payable - Plus Business Acquisition	-	1,300,006	-	4,446,000	-	4,446,000	-	-	-	-	4,446,000
Issuance of Series C Preferred Shares and Warrants	-	-	-	84,174	-	84,174	-	215,826	-	-	300,000
Adjustment of Series C Preferred Shares to Redemption	-	-	-	-	-	-	-	84,174	-	(84,174)	-
Issuance of Series D Preferred Shares and Warrants	-	-	-	5,709,193	-	5,709,193	-	-	9,290,807	-	15,000,000
Adjustment of Series D Preferred Shares to Redemption	-	-	-	-	-	-	-	-	5,709,193	(5,709,193)	-
Issuance for Payment of Interest on Convertible Debentures	-	271,063	-	1,291,629	-	1,291,629	-	-	-	-	1,291,629
Issuance for Conversion of Exchangeable Shares	-	3,612,599	(3,612,599)	-	-	-	-	-	-	-	-
Shares Issued for Exercise of Restricted Stock Units	-	1,149,163	-	-	-	-	-	-	-	-	-
Distributions to Non-Controlling Interest Holders	-	-	-	-	-	-	-	-	-	(182,151)	(182,151)
Dividends - Preferred Shareholders	-	-	-	-	-	-	5,770,962	548,168	-	(12,649,121)	(6,329,991)
BALANCE AS OF DECEMBER 31, 2023	**4,754,979**	**61,986,686**	**8,953,951**	**$ 280,695,032**	**$ (190,934,649)**	**$ 89,760,383**	**$ 57,545,155**	**$ 5,608,093**	**$ 15,000,000**	**$ (22,677,716)**	**$ 145,235,915**

GLASS HOUSE BRANDS INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ (98,060,979)	$ (32,964,696)
Adjustments to Reconcile Net Loss		
to Net Cash Provided By (Used In) Operating Activities:		
Deferred Tax Benefit	1,512,332	(11,538,095)
Bad Debt Expense, Net of Recoveries	981,430	787,299
Interest Capitalized to Notes Receivable	(100,442)	-
Loss on Disposal of Property and Equipment	130,469	-
Depreciation and Amortization	14,627,126	12,301,466
Loss on Equity Method Investments	2,101,649	2,006,639
Impairment Expense for Goodwill	37,911,601	5,850,772
Impairment Expense for Intangible Assets	14,902,928	-
Loss on Extinguishment of Debt	-	489,647
Non-Cash Operating Lease Costs	1,258,391	844,995
Accretion of Debt Discount and Loan Origination Fees	2,036,788	1,521,638
Loss on Change in Fair Value of Derivative Liabilities	28,289	29,863
Loss (Gain) on Change in Fair Value of Contingent Liabilities and Shares Payable	24,399,013	(28,868,949)
Share-Based Compensation	7,636,791	12,755,681
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(171,817)	(1,578,992)
Prepaid Expenses and Other Current Assets	3,882,673	(1,566,054)
Inventory	2,360,534	(674,275)
Other Assets	191,392	(2,284,841)
Accounts Payable and Accrued Liabilities	5,985,412	473,073
Interest Payments on Finance Leases	(159,411)	(14,577)
Income Taxes Payable	277,917	1,993,543
Operating Lease Liabilities	(1,151,157)	(812,338)
Other Non-Current Liabilities	2,642,995	463,648
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**23,223,924**	**(40,784,553)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(12,309,356)	(27,765,732)
Proceeds From Payments on Note Receivable	63,267	-
Issuance of Note Receivable	(285,410)	(6,717,100)
Contributions to Equity Method Investments	(182,500)	(513,343)
Distributions Received from Equity Method Investments	-	3,001,871
Cash Acquired in Business Acquisition, Net of Cash Paid	-	2,793,631
NET CASH USED IN INVESTING ACTIVITIES	**(12,713,999)**	**(29,200,673)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the Issuance of Notes Payable, Third Parties and Related Parties	63,404	9,421,000
Proceeds from the Issuance of Preferred Shares	15,300,000	31,957,950
Redemption of Preferred Shares	-	(772,718)
Payment on Finance Lease	(284,221)	(20,215)
Payments on Notes Payable, Third Parties and Related Parties	(696,216)	(9,887,672)
Contributions	-	3,060,000
Cash Received Upon Exercise of Options	-	303,694
Distributions to Non-Controlling Interest Holders	(182,151)	-
Distributions to Preferred Shareholders	(6,329,991)	(4,000,142)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**7,870,825**	**30,061,897**
NET INCREASE (DECREASE) IN CASH, RESTRICTED CASH AND CASH EQUIVALENTS	**18,380,750**	**(39,923,329)**
Cash, Restricted Cash and Cash Equivalents, Beginning of Period	14,143,502	54,066,831
CASH, RESTRICTED CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 32,524,252**	**$ 14,143,502**

GLASS HOUSE BRANDS INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	2023	2022
SUPPLEMENTAL DISCLOSURE FOR CASH FLOW INFORMATION		
Cash Paid for Interest	$ 7,394,786	$ 4,713,783
Cash Paid for Taxes	$ 4,829,638	$ 4,129,492
Non-Cash Investing and Financing Activities:		
Net Assets Acquired From an Acquisition, Excluding Cash Acquired	$ -	$ 62,711,127
Shares Issued to Settle Shares Payable - Plus Business Acquisition	$ 4,446,000	$ -
Purchase of Property and Equipment from Proceeds of Note Payable, Third Parties	$ -	$ 242,868
Issuance of Warrants for Relief of Liabilities	$ -	$ 868,763
Reclass of Turlock Notes Receivable for Acquired Assets of NHC Turlock	$ 1,578,428	$ -
Issuance of Equity for Payment of Interest	$ 1,291,629	$ -
Recognition of Right-of-Use Asset and Lease Liability for Finance Lease	$ 1,909,842	$ 301,022
Lease Terminations and Amendments	$ 629,606	$ -
Adjustment of Preferred Shares to Redemption Value	$ 5,793,367	$ -
Exchange of Series A Preferred Shares and Warrants For Series B Shares and Preferred Warrants	$ -	$ 17,082,976
Adjustment 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
Conversion of Note Receivable to Equity of Investee	$ -	$ 5,461,257
Fair Value of Warrants Issued in Connection with Debt	$ -	$ 89,250
Non-Cash Investment and Non-Controlling Interest Addition	$ -	$ 2,445,000
Interest Capitalized to Property and Equipment	$ 273,699	$ 1,043,392

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 666 Burrard Street, Suite 2500, Vancouver, BC V6C 2X8 Canada.

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, 2023, the Company had an accumulated deficit of $190,934,649, a net loss attributable to the Company of $98,269,418 and net cash provided by operating activities of $23,223,924. 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, 2023 and 2022, the consolidated results of operations and cash flows for the years ended December 31, 2023 and 2022 have been included.

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

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.

Basis of Consolidation

These Consolidated Financial Statements as of December 31, 2023 and 2022 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, 2023 and 2022:

Corporate Entities

Entity	Location	Purpose	Ownership 2023	Ownership 2022
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, CA	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%
Plus Products Holding Inc.	Long Beach, CA	Holding company	100%	100%
Plus Products Nevada LLC	Long Beach, CA	Holding company	100%	100%
Plus Products Services LLC	Long Beach, CA	Holding company	100%	100%
Plus Products Wonders LLC	Long Beach, CA	Holding company	100%	100%
Uplift Services LLC	Long Beach, CA	Holding company	100%	100%
Carberry LLC	Long Beach, CA	Holding company	100%	100%

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

Management and Operating Entities

Subsidiaries	Location	Purpose	Ownership 2023	Ownership 2022
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	51%	51%
E7 Eureka LLC	Eureka, CA	Cannabis retail applicant	100%	100%
The Pottery Inc	Los Angeles, CA	Cannabis retail	100%	100%
Natural Healing Center LLC	Grover Beach, CA	Cannabis retail	100%	100%
NHC Lemoore LLC	Lemoore, CA	Cannabis retail	100%	100%
NHC-MB LLC	Morro Bay, CA	Cannabis retail	100%	100%
NHC Turlock, LLC	Turlock, CA	Cannabis retail	100%	0%

Real Estate Entities

Subsidiaries	Location	Purpose	Ownership 2023	Ownership 2022
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%

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.

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 three reportable segments which are retail, wholesale biomass and cannabis-related consumer packaged goods ("CPG"). 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. See "*Note 21 – Segment Information*" for further information.

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

Employee Retention Tax Credits

On March 27, 2020, the U.S. government enacted the Coronavirus Aid Relief and Security Act (the "CARES Act") to provide certain relief as a result of the COVID-19 pandemic. The CARES Act provides tax relief, along with other stimulus measures, including a provision for an Employee Retention Credit ("ERC"). As there is no authoritative guidance under GAAP on accounting for government assistance to for-profit business entities, the Company accounts for the ERC by analogy to International Accounting Standard, Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20"). During the year ended December 31, 2023, the Company filed with the Internal Revenue Service credits totaling $11,580,468. The Company will not recognize the amounts claimed until such time that it has been determined that the Company has reasonable assurance that the credits will be realized.

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, 2023 and 2022, 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 14 – Notes Payable and Convertible Debentures*" for further discussion.

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. As of December 31, 2023 and 2022, the Company's reserve for doubtful accounts was $717,418 and $1,114,183, 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, 2023 and 2022, the Company's reserve was $791,307 and $353,994, respectively.

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

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 Expense (Income), Net in the Consolidated Statements 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.

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
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.

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

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.

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, 2023 and 2022, the Company performed its' analysis for its goodwill impairment test. Refer to "*Note11 – Goodwill"* for further discussion on goodwill impairment.

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. In accordance with U.S GAAP, 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 and finance leases are included in operating lease right-of-use ("ROU") assets and accrued obligations under operating and finance lease (current and non-current) liabilities 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 reassess 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 determines 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.

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,or could require net cash settlement, then the contract shall be classified as an asset or a liability.

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

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 8 – 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.

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 biomass and 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, 2023 and 2022, sales discounts were approximately $11.9 million and $10.7 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.

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

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.

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:

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

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, 2023 and 2022.

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 7 – Investments"* for assumptions used to value investments. Refer to "*Note 13 – 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.

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

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 from the calculation of 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 Company's convertible debentures using the "if converted" method for. See *"Note 17 – Loss Per Share"* for further information.

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.

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. The adoption of the standard did not have a material impact on the Company's Consolidated Financial Statements.

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 adoption of the standard did not have a material impact on the Company's Consolidated Financial Statements.

Recently Issued Accounting Standards

In March 2023, the FASB issued ASU 2023-01, *"Leases (Topic 842), Common Control Arrangements"* ("ASU 2023-01"), which requires an entity to determine whether a related party arrangement between entities under common control is a lease. If the arrangement is determined to be a lease, an entity must classify and account for the lease on the same basis as an arrangement with an unrelated party (on the basis of legally enforceable terms and conditions). ASU 2023-01 is effective for the Company beginning January 1, 2024 with early adoption permitted. The Company is currently evaluating the effect of adopting this accounting standard.

In November 2023, the FASB issued ASU 2023-07, "*Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures"* ("ASU 2023-07"), which is intended to improve the financial reporting by requiring disclosure of incremental segment information on an annual and interim basis for all public entities to enable investors to develop more decision-useful financial analyses. ASU 2023-07 is effective for the Company beginning January 1, 2024 with early adoption permitted. The Company is currently evaluating the effect of adopting this accounting standard.

In December 2023, the FASB issued ASU 2023-09, "*Income Taxes (Topic 280), Improvements to Income Tax Disclosures"* ("ASU 2023-09"), which require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a certain quantitative threshold. ASU 2023-09 is effective for the Company beginning January 1, 2025 with early adoption permitted. 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, 2023 and 2022, 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 and projected trends, and other information. There were one (2023) and two (2022) customer(s) for the year ended December 31, 2023 and 2022, respectively, that comprised 21% and 32%, respectively, of the Company's revenues. As of December 31, 2023 and 2022, these same customers had a balance due to the Company of $722,514 and $5,240,179, respectively.

4. INVENTORY

As of December 31, 2023 and 2022, inventory consists of the following:

	2023	2022
Raw Materials	$ 1,192,369	$ 2,761,602
Work-in-Process	3,326,832	3,977,761
Finished Goods	4,320,336	4,210,708
Total Inventory	**$ 8,839,537**	**$ 10,950,071**

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 8 – 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, which closed 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, 2023 and 2022, the notes receivable balance is nil and $1,255,843, 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.

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 8 – 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 Managemen t, LLC	SoCal Hemp JV, LLC	5042 Venice, LLC	Estate Investment, LLC	Reeform, LLC	Lompoc TIC, LLC	TOTAL
Balance 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
Distribution	-	-		(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)
Balance December 31, 2022	**$ 2,303,470**	**$ -**	**$ -**	**$ -**	**$ 1,779,599**	**$ -**	**$ 163,123**	**$ 4,246,192**
Additions	-	-	-	-	-	182,500	-	182,500
(Loss) Gain on Equity Method Investments	(2,303,470)	-	-	-	191,172	(18,265)	28,914	(2,101,649)
Balance at December 31, 2023	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,970,771**	**$ 164,235**	**$ 192,037**	**$ 2,327,043**

During the years ended December 31, 2023 and 2022, the Company recorded net losses from equity method investments of $2,101,649 and $2,006,639, 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.

7. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2023 and 2022, property, plant and equipment consist of the following:

	2023	2022
Land	$ 70,888,383	$ 70,888,383
Buildings	143,206,685	140,042,534
Furniture and Fixtures	827,273	471,696
Leasehold Improvements	14,680,328	10,927,265
Equipment and Software	9,497,864	8,050,827
Construction in Progress	10,166,294	6,447,286
Total Property, Plant and Equipment	249,266,827	236,827,991
Less Accumulated Depreciation and Amortization	(33,580,458)	(20,397,067)
Property, Plant and Equipment, Net	**$ 215,686,369**	**$ 216,430,924**

During the years ended December 31, 2023 and 2022, the Company recorded depreciation expense of $13,492,771 and $11,323,468, respectively. Construction in progress represents assets under construction for cultivation not yet ready for use. Additionally, during the year ended December 31, 2023 and 2022, the Company capitalized interest to property and equipment of $273,699 and $1,043,392, respectively.

8. BUSINESS ACQUISITIONS

NHC Turlock, LLC

On April 21, 2023, the Company completed the acquisition of NHC Turlock, LLC, a California retail dispensary, through GHG-NHC Turlock Inc., a wholly-owned subsidiary of the Company. Pursuant to the terms of the merger agreement, calculation and payment of consideration for the acquisition of NHC Turlock will occur at the end of its sixth full quarter of operations ("Turlock Earnout Date"), at twenty-four times its annualized EBITDA in that quarter ("Turlock Contingent Consideration") offset by the amount owed by the seller of NHC Turlock to the Company under a note receivable. The Turlock Contingent Consideration is comprised of 80% in deferred Equity Shares and 20% in long-term debt. The deferred Equity Shares payable are to be issued upon the earlier of: 1) the Turlock Earnout Date or 2) April 21, 2025. The fair value of the deferred Equity Shares payable is to be determined using the volume-weighted average price (VWAP) for the day immediately preceding the date of issuance. The long-term debt portion of the Turlock Contingent Consideration will be 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.

As of the date of acquisition, the fair value of the Turlock Contingent Consideration was determined to be nil based on the Company's forecasts of future EBITDA, and as a result, the total consideration was estimated to be the balance of the note receivable of $1,578,428. The Company recorded $250,000 in inventory and $1,328,428 of intangible assets for NHC Turlock's cannabis license and assumed the lease related to this entity. The Company analyzed the transaction under ASC 805 *"Business Combination"* and determined that it did not meet the criteria of a business and accounted for this transaction as an asset acquisition. At the acquisition date for NHC Turlock, the Company determined that NHC Turlock's cannabis license was fully impaired and recorded an impairment expense for intangible assets of $1,328,428 for year ended December 31, 2023. See "*Note 9 – Intangible Assets*" for further information.

2022 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 fair value estimates and analyses that were subject to change within the measurement period as valuations are finalized. Measurement period adjustments that the Company determined to be material were applied to the Company's consolidated financial statements in the period the adjustment was determined for the acquisitions. 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 acquisition adjustments related to the business combinations were not pushed down to the separate financial statements of the acquired entities.

8. BUSINESS ACQUISITIONS *(Continued)*

The summary of allocation of purchase price of the business acquisitions completed during the year ended December 31, 2022 are as follows:

	Plus Products Holding Inc.	The Pottery, Inc.	Natural Healing Center, LLC	NHC Lemoore, LLC	NHC-MB, LLC	Total
Closing Date:	*April 28, 2022*	*July 28, 2022*	*September 6, 2022*	*September 6, 2022*	*September 14, 2022*	
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
Shares Payable	-	-	2,262,000	1,234,000	1,933,000	5,429,000
Fair Value of Remaining 50% Equity Interest	-	900,000	-	-	-	900,000
Cash Payment	-	-	590,795	1,642,522	305,427	2,538,744
Loan Forgiveness	-	-	1,711,000	3,750,000	-	5,461,000
Working Capital Adjustment	-	-	169,683	98,064	16,324	284,071
Assumption of IRS Debt	-	-	6,753,499	-	-	6,753,499
Total Consideration	**$ 31,361,620**	**$ 2,000,000**	**$ 17,425,275**	**$ 9,997,101**	**$ 7,503,320**	**$ 68,287,316**
Net Assets Acquired (Liabilities Assumed)						
Current Assets [(2)]	$ 6,095,273	$ 382,436	$ 4,134,643	$ 147,259	$ 459,585	$ 11,219,196
Operating Right-of-Use Asset	294,159	3,671,969	992,717	991,606	772,647	6,723,098
Property, Plant and Equipment	789,779	37,201	273,679	1,788,166	-	2,888,825
Non-Current Assets	93,662	3,500	-	-	-	97,162
Current Liabilities Assumed	(1,157,112)	(2,854,242)	(2,375,611)	(697,558)	(634,434)	(7,718,957)
Lease Liabilities	(294,159)	(3,671,969)	(832,060)	(833,989)	(652,654)	(6,284,831)
Deferred Tax Liabilities	(2,154,737)	(971,031)	(3,665,852)	(363,787)	(1,595,065)	(8,750,472)
Intangible Assets:						
Intellectual Property	5,100,000	400,000	1,100,000	300,000	600,000	7,500,000
Customer Relationship	2,600,000	-	-	-	-	2,600,000
Cannabis License	-	3,070,000	12,000,000	1,000,000	5,100,000	21,170,000
Total Intangible Assets	7,700,000	3,470,000	13,100,000	1,300,000	5,700,000	31,270,000
Total Identifiable Net Assets Acquired (Net Liabilities Assumed)	11,366,865	67,864	11,627,516	2,331,697	4,050,079	29,444,021
Goodwill [(1)]	19,994,755	1,932,136	5,797,759	7,665,404	3,453,241	38,843,295
Total Net Assets Acquired	**$ 31,361,620**	**$ 2,000,000**	**$ 17,425,275**	**$ 9,997,101**	**$ 7,503,320**	**$ 68,287,316**
Revenues from Acquisition	*$ 5,641*	*$ 2,844,275*	*$ 10,152,141*	*$ 2,859,936*	*$ 5,329,449*	*$ 21,191,442*
Net Income (Loss) from Acquisition	*$ 215,659*	*$ (1,129,577)*	*$ 3,604,574*	*$ (504,722)*	*$ 1,454,587*	*$ 3,640,521*
Pro Forma Revenues [(3)]	*$ 3,911,580*	*$ 2,110,084*	*$ 8,158,053*	*$ 3,889,361*	*$ 4,647,797*	*$ 22,716,875*
Pro Forma Net Income (Loss) [(3)]	*$ 1,067,848*	*$ (1,287,036)*	*$ 551,711*	*$ (231,069)*	*$ 289,561*	*$ 391,015*

(1) Goodwill arising from acquisitions represents 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 provides for lower costs and synergies of the Company's growing and wholesale distribution methods which allow for overall lower costs.

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

(3) 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.

During the year ended December 31, 2023, upon finalization of the NHC acquisition allocations, the Company determined certain measurement period adjustments in which the Company increased its consideration for various working capital adjustments, as defined in the agreement, and certain assets and liabilities that were determined to be no longer collectible or payable. In accordance with ASC 805, such adjustments were determined to be measurement period adjustments during the year ended December 31, 2023.

8. BUSINESS ACQUISITIONS *(Continued)*

Plus Products Holdings, Inc.

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 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 14 – 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.

The Pottery Inc.

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 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.

Natural Healing Center, LLC

On September 6, 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 purchase price is for an aggregate consideration of $17,425,275 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 (iv) working capital adjustment and (v) 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.

NHC Lemoore, LLC

On September 6, 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 $9,997,101 and is comprised of the following: (i) $3,272,515 fair value of the Equity Shares of the Company and $1,234,000 fair value of deferred Equity Shares (ii) a cash payment and (iii) working capital adjustment. 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.

8. BUSINESS ACQUISITIONS *(Continued)*

NHC-MB, LLC

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 $7,503,320 and is comprised of the following: (i) $5,249,569 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.

9. INTANGIBLE ASSETS

As of December 31, 2023 and 2022, intangible assets consist of the following:

	2023	2022
Definite Lived Intangible Assets		
Customer Relationships	$ 587,000	$ 2,600,000
Intellectual Property	4,777,000	8,290,000
Total Definite Lived Intangible Assets	5,364,000	10,890,000
Less Accumulated Amortization	(2,321,020)	(1,186,665)
Definite Lived Intangible Assets, Net	3,042,980	9,703,335
Indefinite Lived Intangible Assets		
Cannabis Licenses	18,170,000	26,218,500
Total Indefinite Lived Intangible Assets	18,170,000	26,218,500
Total Intangible Assets, Net	**$ 21,212,980**	**$ 35,921,835**

For the years ended December 31, 2023 and 2022, the Company recorded amortization expense related to intangible assets of $1,134,355 and $977,998, respectively. During the year ended December 31, 2023, the Company recognized $9,376,928 of other than temporary impairment in its cannabis licenses related to its retail reportable segment that were identified as part of the annual impairment assessment as of December 31, 2023 as a result of unforeseen changes in the market from more than expected retail competition in the latter half of calendar 2023. During the quarter ended March 31, 2023, the Company recognized $5,526,000 of other than temporary impairment in customer relationships and intellectual property related to the consumer packaged goods reportable segment as a result of management's response and updated earnings projections for unforeseen changes in market demand in the consumer packaged goods market. There were no such impairments recognized during the year ended December 31, 2022.

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

December 31:	
2024	$ 746,466
2025	718,616
2026	598,616
2027	465,283
2028	118,616
Thereafter	395,383
Total Future Amortization Expense	**$ 3,042,980**

10. GOODWILL

As of December 31, 2023 and 2022, goodwill was nil and $37,797,301, respectively.

The following are activities for goodwill for the year ended December 31:

	2023	2022
Balance at Beginning of Year	$ 37,797,301	$ 4,918,823
Acqusitions During the Year	-	38,729,250
Measurement Period Adjustments	114,300	
Impairments During the Year	(37,911,601)	(5,850,772)
Balance at End of Year	**$ -**	**$ 37,797,301**

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 period ended March 31, 2023, management noted indications of impairment on the goodwill of its consumer packaged goods reportable segment and recorded an impairment expense of $14,143,983 as a result of management's response and updated earnings projections for unforeseen changes in market demand in the consumer packaged goods market. During the last quarter of December 31, 2023, management noted indications of impairment on the goodwill of its retail reportable segment and recorded an impairment expense of $23,767,618 as a result of the unforeseen changes in the market for more than expected retail competition. During the year ended December 31, 2022, management noted indications of impairment on the goodwill of its consumer packaged goods reportable segment and recorded an impairment expense of $5,850,722 as a result of unforeseen market demand and updated earnings projections in the consumer packaged goods market.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As of December 31, 2023 and 2022, accounts payable and accrued liabilities consist of the following:

	2023	2022
Accounts Payable	$ 5,539,966	$ 6,005,745
Accrued Liabilities	13,123,070	12,603,940
Accrued Payroll and Related Liabilities	5,351,228	2,089,259
Sales Tax and Cannabis Taxes	2,917,623	1,270,572
Total Accounts Payable and Accrued Liabilities	**$ 26,931,887**	**$ 21,969,516**

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, 2023 and 2022, was approximately $1,103,000 and $999,000, respectively.

12. CONTINGENT SHARES AND EARNOUT LIABILITIES

As of December 31, 2023 and 2022, activity related to the contingent shares and earnout liabilities consist of the following:

		2023			2022	
Balance at Beginning of Year	$	14,656,666		$	38,428,700	**(i)**
Contingent Shares Issued		(4,446,000)	**(ii)**		5,460,000	**(ii)**
Change in Fair Value of Contingent Liabilities		24,378,334			(29,232,034)	
Balance at End of Year	**$**	**34,589,000**		**$**	**14,656,666**	

(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, 2023 and 2022, the value of the contingent earnout was $0 and $1,207,666, respectively, and included as a component of contingent shares and earnout liabilities in the accompanying Consolidated Balance Sheets. The decreases in fair value of $1,207,666 and $1,164,534 were recorded as components of the change in fair value of contingent liabilities during the years ended December 31, 2023 and 2022, respectively, and are included in the accompanying Consolidated Statements of Operations. As of December 31, 2023, the Company determined the criteria for the sponsor earnout liability related to the Mercer Park Transaction was not met at the expiration of the term and recorded the change in fair value of contingent consideration. Accordingly, as of December 31, 2023, the sponsor earnout liability was nil.

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, 2023 and 2022, no Equity Shares were issued in connection with these earnouts.

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, 2023 and 2022, the fair value of the contingent earnout was $18,069,000 and $4,041,000, respectively, and included as a component of contingent shares and earnout liabilities in the accompanying Consolidated Balance Sheets. The increase in fair value of $14,028,000 and decrease in fair value of $18,530,000 were recorded as components of the change in fair value of contingent liabilities during the years ended December 31, 2023 and 2022, respectively, and is 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 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. During the year ended December 31, 2022, the Company's original estimated earnings from the facility were not as expected and accordingly, the Company reduced the fair value of the earnout liability. During the year ended December 31, 2023, due to the improvement in the Company's operations at the facility, the Company determined the potential earnings had significantly increased and as a result increased the fair value of the earnout liability.

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

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, 2023 and 2022, the fair value of the contingent payment was $16,520,000 and $6,860,000, respectively, and included as a component in contingent shares and earnout liabilities in the accompanying Consolidated Balance Sheets. The Company recorded increase in fair value of $9,660,000 and decrease in fair value of $6,625,500 during the years ended December 31, 2023 and 2022, 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.

(ii) Contingent RSUs – Plus Products

As consideration for the acquisition of Plus Products, see "*Note 8 – 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, 2023 and 2022, the fair value of the contingent RSUs was $0 and $2,548,000, respectively, and included as a component in contingent shares and earnout liabilities in the accompanying Consolidated Balance Sheets. The Company recorded an increase in fair value of $1,898,000 and decrease in fair value of $2,912,000, respectively, during the years ended December 31, 2023 and 2022, and it was included as a component of change in fair value of contingent liabilities in the accompanying Consolidated Statements of Operations. During the year ended December 31, 2023, the Company moved $4,446,000 of contingent shares payable related to the Plus Business Acquisition to additional paid-in-capital. See "*Note 15 – Shareholders' Equity*" for further discussion. 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.

13. 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.

13. LEASES *(Continued)*

The below are the details of the lease cost and other disclosures regarding the Company's leases for the years ended December 31, 2023 and 2022:

	2023	2022
Finance Lease Cost:		
Amortization of Finance Lease Right-of-Use Assets	$ 293,159	$ 15,051
Interest on Lease Liabilities	159,411	14,577
Operating Lease Cost	2,440,654	1,479,305
Short-Term Lease Costs	1,149,276	933,424
Total Lease Expenses	**$ 4,042,500**	**$ 2,442,357**

	2023	2022
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating Cash Flows from Finance Leases	$ 147,525	$ 9,802
Operating Cash Flows from Operating Leases	$ 2,333,420	$ 1,446,649
Financing Cash Flows from Finance Leases	$ 284,221	$ 20,215
Non-Cash Additions to Right-of-Use Assets and Lease Liabilities:		
Recognition of Right-of-Use Assets for Finance Leases	$ 1,909,842	$ 301,022
Recognition of Right-of-Use Assets for Operating Leases	$ -	$ 8,614,907
Weighted-Average Remaining Lease Term (Years) - Finance Leases	4.00	3.00
Weighted-Average Remaining Lease Term (Years) - Operating Leases	7.00	7.00
Weighted-Average Discount Rate - Finance Leases	11.00%	20.40%
Weighted-Average Discount Rate - Operating Leases	11.46%	12.02%

Future minimum lease payments under non-cancelable finance and operating leases as of December 31, 2023 are as follows:

	Operating Leases		Finance Leases	
December 31:	Third Parties	Related Parties	Third Parties	Total
2024	$ 1,399,456	$ 979,393	$ 575,578	$ 2,954,427
2025	1,399,104	554,267	618,956	2,572,327
2026	1,372,745	570,895	483,475	2,427,115
2027	1,126,862	588,022	497,045	2,211,929
2028	537,353	605,663	187,959	1,330,975
Thereafter	1,600,852	2,320,941	-	3,921,793
Total Future Minimum Lease Payments	7,436,372	5,619,181	2,363,013	15,418,566
Less Imputed Interest	(2,132,007)	(1,767,106)	(456,585)	(4,355,698)
Present Value of Lease Liability	**5,304,365**	**3,852,075**	**1,906,428**	**11,062,868**
Less Current Portion of Lease Liability	(825,318)	(627,154)	(386,779)	(1,839,251)
Present Value of Lease Liability, Net of Current Portion	**$ 4,479,047**	**$ 3,224,921**	**$ 1,519,649**	**$ 9,223,617**

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, 2023, 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.

14. NOTES PAYABLE AND CONVERTIBLE DEBENTURES

As of December 31, 2023 and 2022, notes payable consist of the following:

	2023	2022
Term loan payable maturing in November 30, 2026, bearing interest at 10.00 percent per annum	$ 49,375,000	$ 50,000,000
Convertible Debentures	16,006,084	16,006,084
Other	434,410	442,222
Total Notes Payable	65,815,494	66,448,306
Less Unamortized Debt Issuance Costs and Loan Origination Fees	(1,752,570)	(3,789,358)
Net Amount	$ 64,062,924	$ 62,658,948
Less Current Portion of Notes Payable	(7,550,324)	(40,237)
Notes Payable, Net of Current Portion	**$ 56,512,600**	**$ 62,618,711**

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, 2023 and 2022, the interest rate was 10%.

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, 2023 and 2022. 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, 2023 and 2022, 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.

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.

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

On May 12, 2022, the Company amended and restated the Credit Agreement (the "2nd 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. The fair value of the warrants were determined 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.

The Credit Agreement contains a financial covenant which requires the Company to maintain liquidity in excess of $10,000,000 at all times. In March 2023, the Company entered into an amendment to the Credit Agreement by which the Senior Secured Lender waived and deferred enforcement of certain covenants which require the company to maintain a specific minimum debt service coverage ratio beginning with the quarter ending on June 30, 2023. As of December 31, 2023, the Company was in compliance with the Credit Agreement covenant. 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 as of August 1, 2023. The Company recognized amendment fees of $1,000,000 as other expense and paid such fee on July 27, 2023. See *"Note 22 – Subsequent Events"* for further information regarding an additional amendment.

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, 2023 and 2022, the Company recorded a change in derivative asset of approximately $28,000 and $30,000, respectively, as a component of change in fair value of derivatives in the Consolidated Statements of Operations.

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

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

December 31:	Principal Payments
2024	$ 7,554,233
2025	7,557,658
2026	34,436,308
2027	16,267,295
2028	-
Thereafter	-
Total Future Minimum Principal Payments	**$ 65,815,494**

15. SHAREHOLDERS' EQUITY

As of December 31, 2023 and 2022, 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 had a three (3)-year sunset period that would have expired on June 29, 2024. At the annual general and special meeting of the shareholders of the Company held on June 23, 2023, shareholders passed a special resolution to amend the Articles to extend the "sunset" date for the Multiple Voting Shares to June 29, 2027, 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 the Company's remaining property along with all holders of the other classes of the Equity Shares (on a per share basis).

15. SHAREHOLDERS' EQUITY *(Continued)*

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.

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"), 55,000 shares are designated as shares of Series B Preferred Shares ("GH Group Series B Preferred"), 5,000 shares of Series C Preferred Shares ("GH Group Series C Preferred") and 15,000 shares of Series D Preferred Shares ("GH Group Series D 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, GH Group Series C Preferred and GH Group Series D 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. The GH Group Series D Preferred carry a 15% cumulative dividend rate, which increases by 5% following the fifth anniversary of the original issuance. Dividends are payable if and when declared by GH Group's board of directors.

There were nil shares of the GH Group Series A Preferred issued and outstanding as of December 31, 2023 and 2022, respectively; there were 49,969 shares of the GH Group Series B Preferred issued and outstanding as of December 31, 2023 and 2022, respectively; and there were 5,000 and 4,700 shares of the GH Group Series C Preferred issued and outstanding as of December 31, 2023 and 2022, respectively; and there were 15,000 and nil shares of the GH Group Series D Preferred issued and outstanding as of December 31, 2023 and 2022, respectively. In accordance with the provisions above, the Company recorded dividends to the holders of the GH Group Preferred Shares in the amount of $12,649,121 and $5,835,131 for the years ended December 31, 2023 and 2022, respectively.

15. 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 net income attributable to a non-controlling interest during the years ended December 31, 2023 and 2022, of $208,439 and net loss of $61,675, 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.

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 8 – 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.

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 8 – 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 8 – 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.

15. SHAREHOLDERS' EQUITY *(Continued)*

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.

Share and Equity Transactions During the Year Ended December 31, 2023

During the year ended December 31, 2023, the Company through its subsidiary, GH Group, closed on a private placement financing of 300 GH Group Series C Preferred Shares with an aggregate face value of $300,000. In conjunction with these transactions, the Company issued 60,000 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 in the amount of $215,826, which is net of the value allocated to the newly issued warrants of $84,174. 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 accreted by accrued but unpaid dividends and were therefore adjusted to their redemption value as of December 31, 2023 with an adjustment of $84,174.

During the year ended December 31, 2023, the Company issued 1,300,006 Equity Shares in relief of the shares payable as contractually required. Accordingly, the Company reclassified $4,446,000 of shares payable to equity. See "*Note 12 – Contingent Shares and Earnout Liabilities*" for further disclosure.

During the year ended December 31, 2023, the Company issued 271,063 shares in payment of $1,291,629 of accrued interest.

During the year ended December 31, 2023, the Company through its subsidiary, GH Group, closed on a private placement financing of 15,000 GH Group Series D Preferred Shares with an aggregate face value of $15,000,000. In conjunction with these transactions, the Company issued 3,000,000 Company warrants. The warrants have an exercise price of $6.00 per warrant which expire in August 2028. The Company recorded the fair value of the Series D Preferred Shares in the amount of $9,290,807, which is net of the value allocated to the newly issued warrants of $5,709,193. The Series D Preferred Shares are accounted for as mezzanine non-controlling Interest as the Series D Preferred Shares redemption feature is not in the sole control of the Company. The Series D Preferred Shares were accreted by accrued but unpaid dividends and were therefore adjusted to their redemption value as of December 31, 2023 with an adjustment of $5,709,193.

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.

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.

15. SHAREHOLDERS' EQUITY *(Continued)*

As of and for the years ended December 31, 2023 and 2022, the aggregate balances of the VIE included in the accompanying Consolidated Balance Sheet and Consolidated Statements of Operations are as follows:

	2023	2022
Current Assets	$ 180,995	$ 111,686
Non-Current Assets	$ 4,216,362	$ 2,357,957
Total Assets	**$ 4,397,357**	**$ 2,469,643**
Current Liabilities	$ 2,430	$ -
Non-Current Liabilities	$ 237,655	$ 241,373
Total Liabilities	**$ 240,085**	**$ 241,373**
Revenues, Net	**$ 240,000**	**$ 139,500**
Net Income Attributable to Non-Controlling Interest	**$ 140,384**	**$ 56,997**

16. 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

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	(227,116)	$ 2.30
Forfeited	(407,781)	$ 2.82
Balance as of December 31, 2022	**1,452,887**	**$ 2.84**
Forfeited	(17,093)	$ 2.77
Balance as of December 31, 2023	**1,435,794**	**$ 2.84**

16. SHARE-BASED COMPENSATION *(Continued)*

The following table summarizes the stock options that remain outstanding as of December 31, 2023:

Security Issuable	Exercise Price	Expiration Date	Stock Options Outstanding
Equity Shares	$2.26	October 2024	623,415
Equity Shares	$3.08	April 2025	115,917
Equity Shares	$3.08	January 2026	587,767
Equity Shares	$4.60	October 2026	108,695
			1,435,794

As of December 31, 2023 and 2022, options vested and exercisable were 1,416,870 and 1,400,593, respectively. There were no stock options granted for the years ended December 31, 2023 and 2022.

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.

As of December 31, 2023 and 2022, stock options outstanding have a weighted-average remaining contractual life of 1.5 years and 2.4 years, respectively. For the years ended December 31, 2023 and 2022, the Company recognized $290,126 and $1,934,561, 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

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

	Number of Restricted Stock Units
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**
Granted	1,769,703
Converted	(1,149,163)
Forfeited	(87,499)
Balance as of December 31, 2023	**2,533,575**

During the years ended December 31, 2023 and 2022, the Company recognized $7,346,665 and $10,821,120, 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, 2023 and 2022 were determined using the value of the Equity Shares at the time of grant.

Stock Appreciation Right Units

GH Group has stock appreciation rights ("SARs units") which are issued 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, 2023 and 2022, the Company recorded a liability of $219,458 and nil, respectively.

16. 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, 2021	**159,736**
Forfeited	(59,875)
Balance as of December 31, 2022	**99,861**
Granted	60,000
Forfeited	(23,945)
Balance as of December 31, 2023	**135,916**

During the years ended December 31, 2023 and 2022, the Company recognized an expense of $219,458 and a gain 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, 2021	**35,418,078**	**$ 11.29**
Granted	11,114,937	$ 5.10
Cancelled	(2,274,133)	$ 10.43
Balance as of December 31, 2022	**44,258,882**	**$ 9.80**
Granted	3,060,000	$ 5.98
Balance as of December 31, 2023	**47,318,882**	**$ 9.56**

The following table summarizes the warrants that remain outstanding as of December 31, 2023:

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	10,999,937	10,999,937
Equity Shares	$6.00	August 2028	3,000,000	3,000,000
			47,318,882	47,318,882

For the years ended December 31, 2023 and 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:

	2023	2022
Weighted-Average Risk-Free Annual Interest Rate	0.07%	3.42%
Weighted-Average Expected Annual Dividend Yield	0.0%	0.0%
Weighted-Average Expected Stock Price Volatility	2.07%	103.7%
Weighted-Average Expected Life in Years	0.10	5.00
Weighted-Average Estimated Forfeiture Rate	0.0%	0.0%

During the years ended December 31, 2023 and 2022, the weighted-average fair value of warrants granted was $3.1 and $1.83, respectively, per warrant. As of December 31, 2023 and 2022, warrants outstanding have a weighted-average remaining contractual life of 2.8 years and 3.6 years, respectively.

17. 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, 2023 and 2022:

	2023	2022
Net Loss Attributable to the Company	$ (98,269,418)	$ (32,903,021)
Less Dividends and Increase in Redemption Values of GH Group Preferred Shares	(18,442,488)	(20,250,481)
Net Loss Attributable to the Company	(116,711,906)	(53,153,502)
Weighted-Average Shares Outstanding - Basic	72,028,902	64,182,436
Weighted-Average Shares Outstanding - Diluted	72,028,902	64,182,436
Loss Per Share Attributable to the Company - Basic	**$ (1.62)**	**$ (0.83)**
Loss Per Share Attributable to the Company - Diluted	**$ (1.62)**	**$ (0.83)**

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.

18. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES

Provision for income taxes consists of the following for the years ended December 31, 2023 and 2022:

	2023	2022
Current:		
Federal	$ 7,368,805	$ 5,549,824
State	1,062,245	1,603,117
Total Current	8,431,050	7,152,941
Deferred:		
Federal	939,848	(7,949,438)
State	572,484	(3,588,657)
Total Deferred	1,512,332	(11,538,095)
Total Provision for Income Taxes	**$ 9,943,382**	**$ (4,385,154)**

As of December 31, 2023 and 2022, the components of deferred tax assets and liabilities were as follows:

	2023	2022
Deferred Tax Assets:		
Allowance for Doubtful Accounts	$ 892,689	$ 998,674
Inventory Reserve	542,715	99,060
Accrued Expenses	1,168,320	183,965
Other	668,090	-
Operating Lease Liabilities	3,284,630	1,931,799
Stock-based Compensation	5,276,968	4,329,608
Loss on Disposal of Subsidiary	1,720,979	1,600,209
Operating Losses	39,874,330	39,244,750
Property and Equipment and Depreciation	3,999,252	86,553
Total Deferred Tax Assets	57,427,973	48,474,618
Valuation Allowance	(48,439,015)	(36,303,097)
Net Deferred Tax Assets	**$ 8,988,958**	**$ 12,171,521**

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

	2023	2022
Deferred Tax Liabilities:		
Property, Plant & Equipment	$ (6,329,953)	$ (8,750,472)
Right-of-Use Assets	(2,659,005)	(1,908,717)
Total Deferred Tax Liabilities	(8,988,958)	(10,659,189)
Net Deferred Tax Assets (Liabilities)	**$ -**	**$ 1,512,332**

The reconciliation between the effective tax rate on income and the statutory tax rate is as follows for the years ended December 31, 2023 and 2022:

	2023	2022
Income Tax Benefit at Federal Rate	$(18,504,695)	$ (7,804,993)
State Taxes and Fees	(1,436,069)	(6,422,079)
IRS Section 280E Disallowance	6,128,449	1,624,120
Uncertain Tax Position	2,138,468	463,647
Over Accrual of Prior Year Taxes	(2,105,987)	123,775
Change in Valuation Allowance	12,135,919	13,714,557
Change in Fair Value of Contingent Consideration	5,123,793	(7,265,518)
Return to Provision	(2,409,640)	-
Other Adjustments	138,838	-
Impairment Expense	8,240,406	1,228,662
Other Permanent Differences	493,900	(47,325)
Reported Income Tax Expense	**$ 9,943,382**	**$ (4,385,154)**

The Company has used a discrete effective tax rate method to calculate taxes for the years ended December 31, 2023 and 2022. 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, 2023 and 2022.

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.

18. 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, 2023 and 2022 is as follows:

	2023	2022
Balance at Beginning of Year	$ 2,800,823	$ 1,449,046
IRS Section 280E Positions Acquired	-	888,130
IRS Section 280E Positions	2,642,995	463,647
Balance at End of Year	**$ 5,443,818**	**$ 2,800,823**

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, 2023 and 2022, potential benefits of $5,443,818 and $2,800,823, 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, 2023, the Company's federal tax returns since 2020 and state tax returns since 2019 are still subject to adjustment upon audit. The 2019 federal tax returns of Natural Healing Center LLC (pre-acquisition) are currently under IRS examination. No other 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.

19. 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, 2023 and 2022, 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). On May 31, 2023, the parties agreed to settle the outstanding balances for $450,000. During the year ended December 31, 2023, the Company recognized a gain related to these royalties in the amount of $58,333. As of December 31, 2023 and 2022, the Company has nil and $508,333, 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.

19. 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, the notes receivable was fully reserved by the Company. As of December 31, 2021, the Company had received membership or other equity interests in one (1) E7 entity out of seventeen (17) entities that were contractually committed to be transferred under the E7 Merger Agreement. As of December 31, 2022, the Company had received membership or other equity interests in three (3) E7 entities out of seventeen (17) 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 agreed to pay all legal fees for GH Group and APB's joint litigation against Element 7. GH Group also held 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 held 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. As part of the Element 7 Settlement, the Joint Litigation Agreement was terminated as of September 19, 2023.

On September 19, 2023, Element 7, APB and GH Group entered into a Settlement and General Mutual Release Agreement (the "Element 7 Settlement"), where Element 7 agreed to pay GH Group $2,865,000 to settle the Element 7 Proceeding; provided, that if Element 7 pays GH Group $1,865,250 by December 15, 2023, then Element 7 shall be entitled to a credit of $999,750 towards the $2,865,000 payment. In addition, Element 7 would retain ownership of its retail licenses.

On March 6, 2024, the Superior Court of Los Angeles entered into a Final Judgment and Order against Element 7 for the amount of $2,865,000 in favor of GH Group.

19. COMMITMENTS AND CONTINGENCIES *(Continued)*

Catalyst Litigation

The Company is the plaintiff in litigation in the Central District Superior Court of the County of Los Angeles against Elliot Lewis ("Lewis"), Damian Martin ("Martin"), South Cord Holdings LLC ("SCH"), and South Cord Management LLC ("SCM") (collectively, "Catalyst Defendants") following various public, false, and defamatory statements by Lewis and Martin, co-founders of SCM and SCH, that the Company is the "largest black marketeer" of cannabis in the history of the United States, only 25% of the Company's cultivated cannabis is sold through legal channels, and therefore 70-80% is sold illegally, and that the Company is engaging in illicit conduct to avoid taxes. The Company continues to vigorously pursue its defamation claims and otherwise assert its rights with respect to the outrageous and defamatory statements of the Catalyst Defendants.

The Company is the defendant in litigation in the Central District Superior Court of the County of Los Angeles filed by 562 Discount Med, Inc. ("Discount Med"), an affiliate of SCH and SCM. Discount Med has asserted claims against the Company for violation of California Business & Professions Code Section 17200 et seq., California's Unfair Competition Law. Discount Med similarly alleged, like the Catalyst Defendants, that the Company is the "largest black marketeer" of cannabis in California and has purposefully structured its business to profit from the illicit market. The Company has denied all such allegations and asserted affirmative defenses.

ATES Enterprises, LLC Lease Settlement

On November 2, 2023, GH Group entered into a settlement agreement and general release with respect to a lawsuit that was filed on August 16, 2023, against ATES Enterprises, LLC ("ATES"), a former subsidiary of the GH Group, concerning a breach of contract and breach of personal guaranty relating to a lease for certain real property located at 2040-2050 W. 16th Street in Long Beach, California. While GH Group was not a party to the lease and ATES was previously divested by GH Group, GH Group maintained certain indemnity obligations related to the lease. In the lawsuit, the landlords were claiming over $750,000 in damages. GH Group ultimately agreed to pay the landlords $400,000 to settle the case. During December 31, 2023, the Company accrued the $400,000 settlement which has been paid in full as of December 31, 2023.

20. 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, 2023 and 2022 were $438,628 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, 2023 and 2022 were $76,779 and $73,412, 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, 2023 and 2022 were $269,000 and $59,417, 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, 2023 and 2022 were $36,489 and $12,163, respectively.

20. RELATED PARTY TRANSACTIONS *(Continued)*

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, 2023 and 2022 were $134,070 and $130,320, respectively.

21. SEGMENT INFORMATION

Previously, the Company had one reportable segment. However, during the year ended December 31, 2023, the Company determined there are now three reportable segments due to changes in the economic characteristics including projected changes in long-term gross profit and changes in its distribution model of its operating segments, accordingly, prior amounts have been reflected to conform with the current year presentation.

Operations by reportable segment for the year ending December 31, 2023 are as follows:

	Year Ended December 31, 2023				
	Retail	Wholesale Biomass	CPG	Corporate & Other	Total
Total Revenues	$ 39,077,872	$ 105,696,454	$ 16,061,521	$ -	$ 160,835,847
Cost of Goods Sold	17,525,914	47,502,511	14,838,547	-	79,866,972
Gross Profit	21,551,958	58,193,943	1,222,974	-	80,968,875
General and Administrative	13,057,624	9,014,806	2,101,043	28,740,438	52,913,911
Sales and Marketing	1,719,852	358,850	65,501	693,561	2,837,764
Professional Fees	99,156	233,161	171,197	6,800,794	7,304,308
Depreciation and Amortization	1,311,455	11,114,259	742,951	1,458,461	14,627,126
Impairment Expense for Goodwill	-	-	-	37,911,601	37,911,601
Impairment Expense for Intangible Assets	-	-	-	14,902,928	14,902,928
Income (Loss) from Operations	5,363,871	37,472,867	(1,857,718)	(90,507,783)	(49,528,763)
Other Expense (Income):					
Interest Expense	96,477	24,856	12,549	9,684,851	9,818,733
Interest Income	-	-	(138)	(45,000)	(45,138)
Loss on Equity Method Investments	-	-	-	2,101,649	2,101,649
Loss on Change in Fair Value of Derivative Liabilities	-	-	-	28,289	28,289
Loss on Change in Fair Value of Contingent Liabilities and Shares Payable	-	-	-	24,399,013	24,399,013
Other Expense, Net	262,472	298,129	285,468	1,440,219	2,286,288
Total Other Expense	358,949	322,985	297,879	37,609,021	38,588,834
Income (Loss) Before Provision for Income Taxes	**$ 5,004,922**	**$ 37,149,882**	**$ (2,155,597)**	**$ (128,116,804)**	**$ (88,117,597)**
Total Assets	**$ 27,054,172**	**$ 220,054,000**	**$ 12,773,863**	**$ 43,892,962**	**$ 303,774,997**

21. SEGMENT INFORMATION *(Continued)*

Operations by reportable segment for the year ending December 31, 2022 are as follows:

	Year Ended December 31, 2022				
	Retail	Wholesale Biomass	CPG	Corporate & Other	Total
Total Revenues	$ 26,730,848	$ 41,372,683	$ 16,770,461	$ -	$ 84,873,992
Cost of Goods Sold	15,232,736	32,235,069	16,694,214	-	64,162,019
Gross Profit	11,498,112	9,137,614	76,247	-	20,711,973
General and Administrative	7,154,722	6,070,793	2,117,117	30,231,733	45,574,365
Sales and Marketing	912,332	49,626	569,251	1,896,129	3,427,338
Professional Fees	239,961	478,599	210,126	9,022,796	9,951,482
Depreciation and Amortization	457,061	9,918,074	694,111	1,232,220	12,301,466
Impairment Expense for Goodwill	-	-	-	5,850,772	5,850,772
(Loss) from Operations	2,734,036	(7,379,478)	(3,514,358)	(48,233,650)	(56,393,450)
Other Income (Expense):					
Interest Expense	346	22,813	15,235	7,570,096	7,608,490
Interest Income	-	-	-	(56,468)	(56,468)
Loss on Equity Method Investments	-	-	-	2,006,639	2,006,639
Loss on Change in Fair Value of Derivative Liabilities	-	-	-	29,863	29,863
(Gain) on Change in Fair Value of Contingent Liabilities and Shares Payable	-	-	-	(28,868,949)	(28,868,949)
Loss on Extinguishment of Debt	-	-	-	489,647	489,647
Other (Income) Expense, Net	157,301	(544,125)	104,990	29,012	(252,822)
Total Other Expense (Income)	157,647	(521,312)	120,225	(18,800,160)	(19,043,600)
(Loss) Before Provision for Income Taxes	**$ 2,576,389**	**$ (6,858,166)**	**$ (3,634,583)**	**$ (29,433,490)**	**$ (37,349,850)**
Total Assets	**$ 23,757,618**	**$ 215,355,030**	**$ 15,420,275**	**$ 96,095,645**	**$ 350,628,568**

22. SUBSEQUENT EVENTS

On January 30, 2024, the Company announced that it has begun cultivation in its newly retrofitted Greenhouse 5 at the SoCal Facility.

On February 8, 2024, the Company announced that John Pérez has stepped down from the Board due to increasing commitments with his current employer.

On February 23, 2024, the Company entered into Amendment Number Five to Credit Agreement, Waiver, and Consent with the Senior Secured Lender to among other things approve of the Series C and D Offerings and to amend the Credit Agreement to change the Minimum EBITDA requirement to have an annualized EBITDA of $20 million for the fiscal quarter period ending December 31, 2023, a LTM EBITDA of $20 million for the fiscal quarter period ending March 31, 2024 and June 30, 2024, and a LTM EBITDA of $22.5 million for each month ending on July 31, 2024 and for each month ending thereafter.