



GLASS HOUSE BRANDS

GLASS HOUSE BRANDS INC.

**UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF
SEPTEMBER 30, 2024 AND DECEMBER 31, 2023
AND FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2024 AND 2023**

Notice to Reader

Please be advised that the following changes were made to the Unaudited Condensed Interim Consolidated Financial Statements related to the accounting treatment for the three and nine month periods ended September 30, 2023:

- Reclassifications to conform with current year presentation.
- Correction of certain intercompany sales transacted through third-party distributors that were previously presented as third-party sales and not eliminated.
- Correction of distributor fees from consumer packaged goods sales included in cost of goods which should have been a reduction in revenues.
- Corrections of purchase price allocations and impairments.
- Tax adjustments related to the above.

The impact of the restatement on the financial statements relates solely to accounting changes made to previously disclosed transactions. The cumulative impact on the financial statements is further described in Note 3 – Correction of Error in Previously Issued Financial Statements.

November 13, 2024

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

The accompanying amended and restated financial statements in this interim report were prepared by management of Glass House Brands Inc. (“Glass House Brands” or the “Company”) and were reviewed and approved by the Board of Directors of Glass House Brands.

Management is responsible for the amended and restated financial statements and believes that they fairly present the Company’s financial condition and results of operations in conformity with accounting standards generally accepted in the United States of America. Management has included in the Company’s amended and restated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

These amended and restated financial statements have been reviewed by the Company’s auditor, Macias Gini & O’Connell LLP.

GLASS HOUSE BRANDS INC.

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GLASS HOUSE BRANDS INC.**Unaudited Condensed Consolidated Balance Sheets***(Amounts Expressed in United States Dollars in Thousands, Except Share Data, Unless Otherwise Stated)*

	September 30, 2024	December 31, 2023
ASSETS		
Current Assets:		
Cash	\$ 32,060	\$ 29,524
Restricted Cash	3,000	3,000
Accounts Receivable, Net	7,892	3,979
Income Taxes Receivable	1,311	—
Prepaid Expenses and Other Current Assets	6,303	3,873
Inventory	16,768	8,840
Total Current Assets	67,334	49,216
Operating Lease Right-of-Use Assets, Net	8,212	8,960
Finance Lease Right-of-Use Assets, Net	2,379	1,900
Long Term Investments	2,296	2,327
Property, Plant and Equipment, Net	213,218	215,686
Intangible Assets, Net	14,381	21,213
Other Assets	4,909	4,473
TOTAL ASSETS	\$ 312,729	\$ 303,775
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 32,753	\$ 26,932
Income Taxes Payable	4,392	7,879
Contingent Shares and Earnout Liabilities	32,165	34,589
Shares Payable	2,975	8,570
Current Portion of Operating Lease Liabilities	1,621	1,452
Current Portion of Finance Lease Liabilities	762	387
Current Portion of Notes Payable	7,553	7,550
Total Current Liabilities	82,221	87,359
Operating Lease Liabilities, Net of Current Portion	6,831	7,704
Finance Lease Liabilities, Net of Current Portion	1,555	1,520
Other Non-Current Liabilities	20,191	5,443
Notes Payable, Net of Current Portion	52,200	56,513
TOTAL LIABILITIES	162,998	158,539
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 September 30, 2024 and December 31, 2023)	62,675	57,545
GH Group, Inc. Preferred Series C Shares (no par value, 5,000 shares authorized, 5,000 shares issued and outstanding as of September 30, 2024 and December 31, 2023)	6,098	5,608
GH Group, Inc. Preferred Series D Shares (no par value, 15,000 shares authorized, 15,000 shares issued and outstanding as of September 30, 2024 and December 31, 2023)	15,000	15,000
SHAREHOLDERS' EQUITY:		
Multiple Voting Shares (no par value, unlimited shares authorized, 4,754,979 shares issued and outstanding as of September 30, 2024 and December 31, 2023)	—	—
Subordinate Voting Shares (no par value, unlimited shares authorized, 68,942,355 and 61,986,686 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively)	—	—
Exchangeable Shares (no par value, unlimited shares authorized, 7,328,406 and 8,953,951 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively)	—	—
Additional Paid-In Capital	302,549	280,696
Accumulated Deficit	(202,519)	(190,935)
Total Shareholders' Equity Attributable to the Company	100,030	89,761
Non-Controlling Interest	(34,072)	(22,678)
TOTAL SHAREHOLDERS' EQUITY	149,731	145,236
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 312,729	\$ 303,775

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

GLASS HOUSE BRANDS INC.
Unaudited Condensed Interim Consolidated Statements of Operations
(Amounts Expressed in United States Dollars in Thousands, Except Share and Per Share Data, Unless Otherwise Stated)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
		As Restated, Note 3		As Restated, Note 3
Revenues, Net	\$ 63,821	\$ 48,187	\$ 147,859	\$ 120,407
Cost of Goods Sold (Exclusive of Depreciation and Amortization Shown Separately Below)	30,379	22,176	73,217	57,450
Gross Profit	33,442	26,011	74,642	62,957
Operating Expenses:				
General and Administrative	14,424	15,187	45,318	39,628
Sales and Marketing	620	555	1,779	2,204
Professional Fees	891	1,706	6,414	5,406
Depreciation and Amortization	3,731	3,676	11,170	11,082
Impairment Expense for Goodwill	—	—	—	14,144
Impairment Expense for Intangible Assets	6,300	—	6,300	6,854
Total Operating Expenses	25,966	21,124	70,981	79,318
Income (Loss) from Operations	7,476	4,887	3,661	(16,361)
Other (Income) Expense:				
Interest Expense	2,255	2,159	7,054	6,786
Interest Income	—	—	—	(45)
(Gain) Loss on Equity Method Investments	(45)	(91)	31	2,137
(Gain) Loss on Change in Fair Value of Derivative Asset	(539)	93	(684)	223
(Gain) Loss on Change in Fair Value of Contingent Liabilities and Shares Payable	17	(4,024)	(1,428)	18,486
Other Expense, Net	61	467	154	1,837
Total Other (Income) Expense, Net	1,749	(1,396)	5,127	29,424
Income (Loss) From Operations Before Provision for Income Taxes	5,727	6,283	(1,466)	(45,785)
Provision for Income Taxes	8,935	6,494	9,972	14,161
Net Loss	(3,208)	(211)	(11,438)	(59,946)
Net Income to Non-Controlling Interest	41	63	146	126
Net Loss Attributable to the Company	\$ (3,249)	\$ (274)	\$ (11,584)	\$ (60,072)
Loss Per Share - Basic	\$ (0.09)	\$ (0.10)	\$ (0.31)	\$ (1.01)
Loss Per Share - Diluted	\$ (0.09)	\$ (0.10)	\$ (0.31)	\$ (1.01)
Weighted-Average Shares Outstanding - Basic	75,962,337	72,018,714	74,352,307	72,216,018
Weighted-Average Shares Outstanding - Diluted	75,962,337	72,018,714	74,352,307	72,216,018

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

GLASS HOUSE BRANDS INC.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Amounts Expressed in United States Dollars in Thousands, Except Share Data, Unless Otherwise Stated)

	Units			Additional Paid-In Capital	Accumulated Deficit	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS	\$ Amount				Non-Controlling Interest	TOTAL SHAREHOLDERS' EQUITY
	Multiple Voting Shares	Equity Shares	Exchangeable Voting Shares				Mezzanine Non-Controlling Equity Preferred Series B	Mezzanine Non-Controlling Equity Preferred Series C	Mezzanine Non-Controlling Equity Preferred Series D			
BALANCE AS OF DECEMBER 31, 2023	4,754,979	61,986,686	8,953,951	\$ 280,696	\$ (190,935)	\$ 89,761	\$ 57,545	\$ 5,608	\$ 15,000	\$ (22,678)	\$ 145,236	
Net Income (Loss)	—	—	—	—	(18,331)	(18,331)	—	—	—	62	(18,269)	
Share-Based Compensation from Options and Restricted Stock Units	—	—	—	3,272	—	3,272	—	—	—	—	3,272	
Shares Issued for Exercise of Warrants	—	27,400	—	—	—	—	—	—	—	—	—	
Shares Issued for Conversion of Exchangeable Shares	—	481,689	(481,689)	—	—	—	—	—	—	—	—	
Shares Issued for Vesting of Restricted Stock Units	—	195,710	—	—	—	—	—	—	—	—	—	
Shares Issued for Exercise of Options	—	65,883	—	149	—	149	—	—	—	—	149	
Distributions to Non-Controlling Interest Holders	—	—	—	—	—	—	—	—	—	(47)	(47)	
Dividends - Preferred Shareholders	—	—	—	—	—	—	1,627	155	—	(3,720)	(1,938)	
BALANCE AS OF MARCH 31, 2024	4,754,979	62,757,368	8,472,262	284,117	(209,266)	74,851	59,172	5,763	15,000	(26,383)	128,403	
Net Income	—	—	—	—	9,996	9,996	—	—	—	43	10,039	
Share-Based Compensation from Options and Restricted Stock Units	—	—	—	3,621	—	3,621	—	—	—	—	3,621	
Shares Issued for Exercise of Warrants	—	27,356	—	100	—	100	—	—	—	—	100	
Shares Issued for Conversion of Exchangeable Shares	—	629,882	(629,882)	—	—	—	—	—	—	—	—	
Shares Issued for Vesting of Restricted Stock Units	—	1,147,022	—	—	—	—	—	—	—	—	—	
Shares Issued for Exercise of Options	—	153,520	—	369	—	369	—	—	—	—	369	
Shares Issued for 2023 Bonus	—	286,406	—	2,715	—	2,715	—	—	—	—	2,715	
Shares Issued for Vested GH Group Non-Qualified Options	—	1,433,810	—	2,757	—	2,757	—	—	—	—	2,757	
Shares Issued for Payment of Interest on Convertible Debentures	—	92,643	—	646	—	646	—	—	—	—	646	
Distributions to Non-Controlling Interest Holders	—	—	—	—	—	—	—	—	—	(31)	(31)	
Dividends - Preferred Shareholders	—	—	—	—	—	—	1,709	164	—	(3,808)	(1,935)	
BALANCE AS OF JUNE 30, 2024	4,754,979	66,528,007	7,842,380	294,325	(199,270)	95,055	60,881	5,927	15,000	(30,179)	146,684	
Net Income (Loss)	—	—	—	—	(3,249)	(3,249)	—	—	—	41	(3,208)	
Share-Based Compensation from Options and Restricted Stock Units	—	—	—	2,947	—	2,947	—	—	—	—	2,947	
Shares Issued for Shares Payable - NHC Business Acquisitions	—	465,797	—	3,834	—	3,834	—	—	—	—	3,834	
Shares Issued for Exercise of Warrants	—	78,214	—	152	—	152	—	—	—	—	152	
Shares Issued for Conversion of Exchangeable Shares	—	514,938	(513,974)	—	—	—	—	—	—	—	—	
Shares Issued for Vesting of Restricted Stock Units	—	792,423	—	—	—	—	—	—	—	—	—	
Shares Issued for Exercise of Options	—	562,976	—	1,291	—	1,291	—	—	—	—	1,291	
Distributions to Non-Controlling Interest Holders	—	—	—	—	—	—	—	—	—	(31)	(31)	
Dividends - Preferred Shareholders	—	—	—	—	—	—	1,794	171	—	(3,903)	(1,938)	
BALANCE AS OF SEPTEMBER 30, 2024	4,754,979	68,942,355	7,328,406	\$ 302,549	\$ (202,519)	\$ 100,030	\$ 62,675	\$ 6,098	\$ 15,000	\$ (34,072)	\$ 149,731	

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

GLASS HOUSE BRANDS INC.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Amounts Expressed in United States Dollars in Thousands, Except Share Data, Unless Otherwise Stated)

	Units			Additional Paid-In Capital	Accumulated Deficit	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS	\$ Amount				Non-Controlling Interest	TOTAL SHAREHOLDERS' EQUITY
	Multiple Voting Shares	Equity Shares	Exchangeable Voting Shares				Mezzanine Non-Controlling Equity Preferred Series B	Mezzanine Non-Controlling Equity Preferred Series C	Mezzanine Non-Controlling Equity Preferred Series D			
BALANCE AS OF DECEMBER 31, 2022	4,754,979	55,653,855	12,566,550	\$ 261,527	\$ (92,665)	\$ 168,862	\$ 51,774	\$ 4,760	\$ —	\$ (4,262)	\$ 221,134	
Net Loss	—	—	—	—	(34,746)	(34,746)	—	—	—	(37)	(34,783)	
Share-Based Compensation from Options and Restricted Stock Units	—	—	—	1,631	—	1,631	—	—	—	—	1,631	
Issuance of Series C Preferred Shares and Warrants	—	—	—	84	—	84	—	216	—	—	300	
Adjustment of Series C Preferred Shares to Redemption Value	—	—	—	—	—	—	—	84	—	(84)	—	
Shares Issued for Conversion of Exchangeable Shares	—	1,602,345	(1,602,345)	—	—	—	—	—	—	—	—	
Shares Issued for Vesting of Restricted Stock Units	—	155,721	—	—	—	—	—	—	—	—	—	
Distributions to Non-Controlling Interest Holders	—	—	—	—	—	—	—	—	—	(46)	(46)	
Dividends - Preferred Shareholders	—	—	—	—	—	—	1,340	125	—	(2,832)	(1,367)	
BALANCE AS OF MARCH 31, 2023	4,754,979	57,411,921	10,964,205	263,242	(127,411)	135,831	53,114	5,185	—	(7,261)	186,869	
Net Income (Loss)	—	—	—	—	(25,052)	(25,052)	—	—	—	100	(24,952)	
Share-Based Compensation from Options and Restricted Stock Units	—	—	—	1,532	—	1,532	—	—	—	—	1,532	
Shares Issued for Shares Payable - Plus Business Acquisition	—	1,300,006	—	4,446	—	4,446	—	—	—	—	4,446	
Shares Issued for Payment of Interest on Convertible Debentures	—	130,984	—	645	—	645	—	—	—	—	645	
Shares Issued for Conversion of Exchangeable Shares	—	1,499,529	(1,499,529)	—	—	—	—	—	—	—	—	
Shares Issued for Vesting of Restricted Stock Units	—	222,674	—	—	—	—	—	—	—	—	—	
Distributions to Non-Controlling Interest Holders	—	—	—	—	—	—	—	—	—	(45)	(45)	
Dividends - Preferred Shareholders	—	—	—	—	—	—	1,405	134	—	(2,915)	(1,376)	
BALANCE AS OF JUNE 30, 2023	4,754,979	60,565,114	9,464,676	269,865	(152,463)	117,402	54,519	5,319	—	(10,121)	167,119	
Net Income (Loss)	—	—	—	—	(274)	(274)	—	—	—	63	(211)	
Share-Based Compensation from Options and Restricted Stock Units	—	—	—	2,565	—	2,565	—	—	—	—	2,565	
Issuance of Series D Preferred Shares and Warrants	—	—	—	3,927	—	3,927	—	—	6,975	—	10,902	
Adjustment of Series D Preferred Shares to Redemption Value	—	—	—	—	—	—	—	—	3,925	(3,925)	—	
Shares Issued for Conversion of Exchangeable Shares	—	265,896	(265,896)	—	—	—	—	—	—	—	—	
Shares Issued for Vesting of Restricted Stock Units	—	153,737	—	—	—	—	—	—	—	—	—	
Distributions to Non-Controlling Interest Holders	—	—	—	—	—	—	—	—	—	(46)	(46)	
Dividends - Preferred Shareholders	—	—	—	—	—	—	1,550	148	—	(3,345)	(1,647)	
BALANCE AS OF SEPTEMBER 30, 2023	4,754,979	60,984,747	9,198,780	\$ 276,357	\$ (152,737)	\$ 123,620	\$ 56,069	\$ 5,467	\$ 10,900	\$ (17,374)	\$ 178,682	

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

GLASS HOUSE BRANDS INC.**Unaudited Condensed Interim Consolidated Statements of Cash Flows***(Amounts Expressed in United States Dollars in Thousands Unless Otherwise Stated)*

	Nine Months Ended	
	September 30,	
	2024	2023
	As Restated, Note 3	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (11,438)	\$ (59,946)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Deferred Tax Benefit	—	(505)
Bad Debt Expense, Net of Recoveries	221	1,449
Interest Capitalized to Notes Receivable	—	(100)
Loss on Disposal of Property and Equipment	—	129
Depreciation and Amortization	11,170	11,082
Loss on Equity Method Investments	31	2,137
Impairment Expense for Goodwill	—	14,144
Impairment Expense for Intangible Assets	6,300	6,854
Non-Cash Operating Lease Costs	1,206	880
Accretion of Debt Discount and Loan Origination Fees	1,356	1,257
(Gain) Loss on Change in Fair Value of Derivative Asset	(684)	223
(Gain) Loss on Change in Fair Value of Contingent Liabilities and Shares Payable	(1,428)	18,486
Share-Based Compensation	9,840	5,728
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(4,134)	(860)
Income Taxes Receivable	(1,311)	—
Prepaid Expenses and Other Current Assets	(2,430)	3,791
Inventory	(7,928)	(761)
Other Assets	173	(102)
Accounts Payable and Accrued Liabilities	9,347	4,191
Interest on Finance Leases	(190)	(108)
Income Taxes Payable	(3,487)	13,090
Operating Lease Liabilities	(1,162)	(790)
Other Non-Current Liabilities	14,748	1,514
NET CASH PROVIDED BY OPERATING ACTIVITIES	20,200	21,783
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(7,734)	(6,234)
Proceeds From Payments on Note Receivable	—	63
Issuance of Note Receivable	—	(285)
NET CASH USED IN INVESTING ACTIVITIES	(7,734)	(6,456)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the Issuance of Notes Payable	—	44
Proceeds from the Issuance of Preferred Shares	—	11,200
Payments on Finance Lease	(405)	(167)
Payments on Notes Payable	(5,666)	(38)
Cash Received for Unissued Preferred Shares	—	1,910
Cash Received for Exercise of Options and Warrants	2,061	—
Distributions to Non-Controlling Interest Holders	(109)	(137)
Distributions to Preferred Shareholders	(5,811)	(4,390)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(9,930)	8,422
NET INCREASE IN CASH, RESTRICTED CASH AND CASH EQUIVALENTS	2,536	23,749
Cash, Restricted Cash and Cash Equivalents, Beginning of Period	32,524	14,144
CASH, RESTRICTED CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 35,060	\$ 37,893

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

GLASS HOUSE BRANDS INC.**Unaudited Condensed Interim Consolidated Statements of Cash Flows***(Amounts Expressed in United States Dollars in Thousands Unless Otherwise Stated)*

	Nine Months Ended	
	September 30,	
	2024	2023
	As Restated, Note 3	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 4,518	\$ 4,747
Cash Paid for Taxes	25	41
Non-Cash Investing and Financing Activities:		
Shares Issued to Settle Shares Payable - NHC Business Acquisitions	3,834	—
Issuance for Shares Reserved from Vested GH Group Non-Qualified Options	2,757	—
Shares Issued for 2023 Bonus	2,715	—
Recognition of Right-of-Use Assets for Finance Leases	937	1,745
Shares Issued for Payment of Interest on Convertible Debentures	646	645
Financing Lease Terminations and Amendments	22	—
Shares Issued to Settle Shares Payable - Plus Business Acquisition	—	4,446
Adjustment of Preferred Shares to Redemption Value	—	4,010
Reclassification of Turlock Notes Receivable for Acquired Assets of NHC Turlock	—	1,578
Interest Capitalized to Property and Equipment	—	274

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

1. NATURE OF OPERATIONS

Glass House Brands Inc. (the “Company”), formerly known as Mercer Park Brand Acquisition Corp. (“Mercer Park”), was incorporated under the *Business Corporations Act* (British Columbia) on April 16, 2019. The Company is a vertically integrated cannabis company that operates 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 (“Subordinate Voting Shares”), restricted voting shares (“Restricted Voting Shares”) and limited voting shares (“Limited Voting Shares”, and collectively with the Subordinate Voting Shares and the Restricted Voting Shares, the “Equity Shares”), and certain common share purchase warrants (the “Listed Warrants”) are listed on Cboe Canada, trading under the symbols “GLAS.A.U” and “GLAS.WT.U,” respectively. The Equity Shares and Listed 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, preferred equity investors and debt issuances. The Company is meeting its 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 nine months ended September 30, 2024, the Company had an accumulated deficit of \$202.5 million, a net loss attributable to the Company of \$11.6 million and net cash provided by operating activities of \$20.2 million. 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. The Company expects to continue to finance its operations, capital expenditures, facility improvements, product development and marketing primarily through cash from sales to customers and may consider future equity issuances and debt financing arrangements.

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.

The significant accounting policies and critical estimates applied by the Company in these Unaudited Condensed Interim Consolidated Financial Statements are the same as those applied in the Company’s audited Consolidated Financial Statements and accompanying notes for the year ended December 31, 2023 and 2022, unless disclosed otherwise below. The Company’s audited Consolidated Financial Statements for the years ended December 31, 2023 and 2022, filed on April 1, 2024, can be found on SEDAR+ at www.sedarplus.ca.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The accompanying Unaudited Condensed Interim Consolidated Financial Statements have been prepared on a going concern basis in accordance with accounting principles generally accepted in the United States of America (“GAAP”) 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.

GLASS HOUSE BRANDS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

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 September 30, 2024 and December 31, 2023, the consolidated results of operations for the three and nine months ended September 30, 2024 and 2023 and cash flows for the nine months ended September 30, 2024 and 2023 have been included.

The accompanying Unaudited Condensed Interim Consolidated Financial Statements do not include all of the information required for full annual financial statements. Accordingly, certain information, footnotes and disclosures normally included in the annual financial statements, prepared in accordance with GAAP, have been condensed or omitted. The financial data presented herein should be read in conjunction with the Company's audited Consolidated Financial Statements for the year ended December 31, 2023, and the related notes thereto, and have been prepared using the same accounting policies described therein.

Basis of Consolidation

These Unaudited Condensed Interim Consolidated Financial Statements as of September 30, 2024 and December 31, 2023 and for the three and nine months ended September 30, 2024 and 2023 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in Accounting Standards Codification ("ASC") 810, *Consolidation*. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company has ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than fifty percent of the outstanding voting securities of another entity. In assessing control, potential voting rights that are currently exercisable are considered.

Non-Controlling Interests

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

Segmented Information

The Company currently operates in three reportable segments which are retail, wholesale biomass and cannabis-related consumer packaged goods ("CPG"). Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the Chief Operating Decision Maker ("CODM"), who is the Company's chief executive officer, in deciding how to allocate resources and assess the Company's financial and operational performance. 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 20 – Segment Information for further information.

Employee Retention Tax Credits

On March 27, 2020, the U.S. government enacted the Coronavirus Aid Relief and Security Act ("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 ("IAS") 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Since the filing of the ERCs through September 30, 2024, the Company filed with the Internal Revenue Service credits totaling \$11.6 million. The Company will not recognize the amounts claimed until it has been determined that the Company has reasonable assurance that the credits will be realized.

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 September 30, 2024 and December 31, 2023, restricted cash was \$3.0 million in each period, which is held in an escrow account and used as an interest reserve for the senior term loan agreement. See Note 13 – Notes Payable and Convertible Debentures for further discussion.

GLASS HOUSE BRANDS INC.**Notes to Unaudited Condensed Interim Consolidated Financial Statements***(Amounts Expressed in United States Dollars Unless Otherwise Stated)****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 Unaudited Condensed Consolidated Balance Sheets, net of an allowance for credit losses. The Company analyzes the aging of accounts receivable, historical credit losses, customer creditworthiness and current economic trends in determining the allowance for credit losses. The Company does not accrue interest receivable on past due accounts receivable.

Accounts receivable, net is as follows (in thousands):

	September 30, 2024	December 31, 2023
Accounts receivable amortized cost	\$ 8,299	\$ 4,696
Allowance for credit losses	(407)	(717)
Net accounts receivable	\$ 7,892	\$ 3,979

The following table summarizes the changes in the allowance for credit losses for accounts receivable (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Balance, beginning of period	\$ (623)	\$ (1,527)	\$ (717)	\$ (1,114)
Provision for expected credit losses, net	(76)	(510)	(221)	(1,445)
Write-offs	292	419	531	941
Balance, end of period	\$ (407)	\$ (1,618)	\$ (407)	\$ (1,618)

Earnings and 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 “if converted” method for the Company’s convertible debentures. See Note 16 – Loss Per Share for further information.

Recently Adopted Accounting Pronouncements***ASU 2023-01***

In March 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-01, *Leases (Topic 842): Common Control Arrangements*, 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 also requires a lessee in a common-control lease arrangement to amortize leasehold improvements over the improvements’ useful life to the common control group regardless of the lease term if the lessee continues to control the use of the underlying asset through a lease. The Company adopted ASU 2023-01 on January 1, 2024. The adoption of the standard did not have a material impact on the Company’s Unaudited Condensed Interim Consolidated Financial Statements.

Recent Accounting Pronouncements Not Yet Adopted*ASU 2024-03*

In November 2024, the FASB issued ASU 2024-03, *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*, which requires disclosure of specified information about certain costs and expenses including purchases of inventory, employee compensation, depreciation and intangible asset amortization for each income statement line item that contains those expenses in the notes to financial statements on an annual and interim basis. ASU 2024-03 also requires entities to include certain amounts that are required to be disclosed under existing U.S. GAAP to be included in the disaggregated income statement expense line item disclosures, disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively and disclose the amount of selling expenses and the entity's definition of selling expenses. ASU 2024-03 is effective for the Company beginning with the 2027 annual report. Early adoption is permitted. ASU 2024-03 may be applied either prospectively to financial statements issued for reporting periods after the effective date or retrospectively to any or all prior periods presented in the financial statements. The Company is currently assessing the impact this standard will have on the Company's Consolidated Financial Statements.

ASU 2023-09

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires annual disclosures of specific categories in the rate reconciliation, additional information for reconciling items that meet a quantitative threshold and a disaggregation of income taxes paid, net of refunds. ASU 2023-09 also eliminates certain existing disclosure requirements related to uncertain tax positions and unrecognized deferred tax liabilities. ASU 2023-09 is effective for the Company beginning with the 2025 annual report. Early adoption is permitted. ASU 2023-09 should be applied prospectively. Retrospective adoption is permitted. The Company is currently assessing the impact this standard will have on the Company's Consolidated Financial Statements.

ASU 2023-07

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, 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. ASU 2023-07 is effective for the Company beginning with the 2024 annual report. Early adoption is permitted. ASU 2023-07 should be applied retrospectively to all periods presented in the financial statements. The Company is currently assessing the impact this standard will have on the Company's Consolidated Financial Statements.

3. CORRECTION OF ERROR IN PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Subsequent to the issuance of the Unaudited Condensed Interim Consolidated Financial Statements as of September 30, 2023 and for the three and nine months ended September 30, 2023, the Company discovered certain misclassifications and oversights which impacted the presentation of the financial statements. In particular, the Company identified certain distributor fees from consumer packaged goods sales included in cost of goods sold which should have been direct reductions to revenues, certain intercompany sales transacted through third-party distributors that were presented as third-party sales, correction of purchase price allocations and impairment of goodwill for certain acquisitions recognized in the first quarter of fiscal year 2023 that have been recognized in fiscal year 2022.

The Company has reviewed applicable accounting guidance and deemed these misclassifications and oversights as errors to previously issued financial statements under ASC 250, *Accounting Changes and Error Corrections*. As a result, adjustments were made to certain financial statement line items of the consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows as of, and for the three and nine months ended September 30, 2023. The Company performed detailed reviews and analyses of all other financial statement line items and accounting policies and noted additional corrections were required.

Adjustments and reclassifications as noted in the following schedules are as follows:

- (1) Reclassifications to conform with current year presentation.
- (2) Correction of certain intercompany sales transacted through third-party distributors that were previously presented as third-party sales and not eliminated.

GLASS HOUSE BRANDS INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

- (3) Correction of distributor fees from consumer packaged goods sales included in cost of goods which should have been a reduction in revenues.
- (4) Corrections of purchase price allocations and impairments.
- (5) Tax adjustments related to the above.

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

The following tables present the summary impacts of the adjustments on the Company's previously reported Unaudited Condensed Consolidated Balance Sheet as of September 30, 2023 (in thousands, except share data):

	Previously Reported	Reclassifications	Adjustments	As Corrected
ASSETS				
Current Assets:				
Cash	\$ 34,893	\$ —	\$ —	\$ 34,893
Restricted Cash	3,000	—	—	3,000
Accounts Receivable, Net	4,199	—	—	4,199
Prepaid Expenses and Other Current Assets	4,735	(241) (1)	(529) (2)	3,965
Inventory	12,838	(801) (1)	(76) (2)	11,961
Total Current Assets	59,665	(1,042)	(605)	58,018
Operating Lease Right-of-Use Assets, Net	9,338	—	—	9,338
Finance Lease Right-of-Use Assets, net	1,840	—	—	1,840
Long Term Investments	2,110	—	—	2,110
Property, Plant and Equipment, Net	212,813	—	—	212,813
Intangible Assets, Net	29,331	—	170 (4)	29,501
Goodwill	22,967	—	801 (4)	23,768
Deferred Tax Asset	—	—	2,017 (5)	2,017
Other Assets	3,529	1,042 (1)	—	4,571
TOTAL ASSETS	\$ 341,593	\$ —	\$ 2,383	\$ 343,976
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 27,744	\$ —	\$ —	\$ 27,744
Income Taxes Payable	20,640	—	51 (5)	20,691
Contingent Shares and Earnout Liabilities	28,684	—	—	28,684
Shares Payable	8,561	—	—	8,561
Current Portion of Operating Lease Liabilities	1,525	—	—	1,525
Current Portion of Finance Lease Liabilities	350	—	—	350
Current Portion of Notes Payable	50	—	—	50
Total Current Liabilities	87,554	—	51	87,605
Operating Lease Liabilities, Net of Current Portion	7,993	—	—	7,993
Finance Lease Liabilities, Net of Current Portion	1,508	—	—	1,508
Other Non-Current Liabilities	5,806	—	(1,490) (5)	4,316
Deferred Tax Liabilities	3,830	—	(3,830) (5)	—
Notes Payable, Net of Current Portion	63,872	—	—	63,872
TOTAL LIABILITIES	170,563	—	(5,269)	165,294
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 September 30, 2023 and December 31, 2022)	56,069	—	—	56,069
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 September 30, 2023 and December 31, 2022, respectively)	5,467	—	—	5,467
GH Group, Inc. Preferred Series D Shares (no par value, 15,000 shares authorized, 10,900 and nil shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively)	10,900	—	—	10,900
SHAREHOLDERS' EQUITY:				
Multiple Voting Shares (no par value, unlimited shares authorized, 4,754,979 shares issued and outstanding as of September 30, 2023 and December 31, 2022)	—	—	—	—
Subordinate Voting Shares (no par value, unlimited shares authorized, 60,984,747 and 55,653,855 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively)	—	—	—	—
Exchangeable Shares (no par value, unlimited shares authorized, 9,198,780 and 12,566,550 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively)	—	—	—	—
Additional Paid-In Capital	276,357	—	—	276,357
Accumulated Deficit	(160,373)	—	7,636	(152,737)
Total Shareholders' Equity Attributable to the Company	115,984	—	7,636	123,620
Non-Controlling Interest	(17,390)	—	16	(17,374)
TOTAL SHAREHOLDERS' EQUITY	171,030	—	7,652	178,682
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 341,593	\$ —	\$ 2,383	\$ 343,976

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

There were no adjustments to the Company's previously reported Unaudited Condensed Interim Consolidated Statement of Operations for three months ended September 30, 2023. The following tables present the summary impacts of the adjustments on the Company's previously reported Unaudited Condensed Interim Consolidated Statement of Operations for nine months ended September 30, 2023 (in thousands, except share and per share data):

	Previously Reported	Adjustments	As Corrected
Revenues, Net	\$ 121,874	\$ (1,467) (2)(3)	\$ 120,407
Cost of Goods Sold (Exclusive of Depreciation and Amortization Shown Separately Below)	59,535	(2,085) (2)(3)	57,450
Gross Profit	62,339	618	62,957
Operating Expenses:			
General and Administrative	39,628	—	39,628
Sales and Marketing	2,204	—	2,204
Professional Fees	5,406	—	5,406
Depreciation and Amortization	11,082	—	11,082
Impairment Expense for Goodwill	17,481	(3,337) (4)	14,144
Impairment Expense for Intangible Assets	6,854	—	6,854
Total Operating Expenses	82,655	(3,337)	79,318
Loss from Operations	(20,316)	3,955	(16,361)
Other Expense:			
Interest Expense	6,786	—	6,786
Interest Income	(45)	—	(45)
Loss on Equity Method Investments	2,137	—	2,137
Loss on Change in Fair Value of Derivative Asset	223	—	223
Loss on Change in Fair Value of Contingent Liabilities and Shares Payable	18,486	—	18,486
Other Expense, Net	1,837	—	1,837
Total Other Expense, Net	29,424	—	29,424
Loss from Operations Before Provision for Income Tax Expense	(49,740)	3,955	(45,785)
Provision for Income Tax Expense	14,161	—	14,161
Net Loss	(63,901)	3,955	(59,946)
Net Income Attributable to Non-Controlling Interest	110	16 (2)	126
Net Loss Attributable to the Company	\$ (64,011)	\$ 3,939	\$ (60,072)
Loss Per Share - Basic and Diluted	\$ (1.07)		\$ (1.01)
Weighted-Average Shares Outstanding - Basic and Diluted	72,216,018		72,216,018

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

The following tables present the summary impacts of the adjustments on the Company's previously reported Unaudited Condensed Interim Consolidated Statement of Cash Flows for the nine months ended September 30, 2023 (in thousands):

	Previously Reported	Reclassifications	Adjustments	As Corrected
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Loss	\$ (63,901)	\$ —	\$ 3,955	\$ (59,946)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:				
Deferred Tax Benefit	(505)	—	—	(505)
Bad Debt Expense, Net of Recoveries	1,449	—	—	1,449
Interest Capitalized to Notes Receivable	(100)	—	—	(100)
Loss on Disposal of Property and Equipment	129	—	—	129
Depreciation and Amortization	11,082	—	—	11,082
Loss on Equity Method Investments	2,137	—	—	2,137
Impairment Expense for Goodwill	17,481	—	(3,337) (4)	14,144
Impairment Expense for Intangible Assets	6,854	—	—	6,854
Non-Cash Operating Lease Costs	880	—	—	880
Accretion of Debt Discount and Loan Origination Fees	1,257	—	—	1,257
Loss on Change in Fair Value of Derivative Asset	223	—	—	223
Loss on Change in Fair Value of Contingent Liabilities and Shares Payable	18,486	—	—	18,486
Share-Based Compensation	5,728	—	—	5,728
Changes in Operating Assets and Liabilities:				
Accounts Receivable	5	—	(865) (2)	(860)
Prepaid Expenses and Other Current Assets	3,612	179 (1)	—	3,791
Inventory	(532)	(179) (1)	(50) (2)	(761)
Other Assets	(102)	—	—	(102)
Accounts Payable and Accrued Liabilities	3,786	108 (1)	297 (2)	4,191
Interest on Finance Leases	—	(108) (1)	—	(108)
Income Taxes Payable	13,090	—	—	13,090
Operating Lease Liabilities	(790)	—	—	(790)
Other Non-Current Liabilities	1,514	—	—	1,514
NET CASH PROVIDED BY OPERATING ACTIVITIES	21,783	—	—	21,783
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of Property and Equipment	(6,234)	—	—	(6,234)
Proceeds From Payments on Note Receivable	63	—	—	63
Issuance of Note Receivable	(285)	—	—	(285)
NET CASH USED IN INVESTING ACTIVITIES	(6,456)	—	—	(6,456)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from the Issuance of Notes Payable, Third Parties and Related Parties	44	—	—	44
Proceeds from the Issuance of Preferred Shares	11,200	—	—	11,200
Payment on Finance Lease	(167)	—	—	(167)
Payments on Notes Payable, Third Parties and Related Parties	(38)	—	—	(38)
Cash Received for Unissued Preferred Shares	1,910	—	—	1,910
Distributions to Non-Controlling Interest Holders	(137)	—	—	(137)
Distributions to Preferred Shareholders	(4,390)	—	—	(4,390)
NET CASH PROVIDED BY FINANCING ACTIVITIES	8,422	—	—	8,422
NET INCREASE IN CASH, RESTRICTED CASH AND CASH EQUIVALENTS	23,749	—	—	23,749
Cash, Restricted Cash and Cash Equivalents, Beginning of Period	14,144	—	—	14,144
CASH, RESTRICTED CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 37,893	\$ —	\$ —	\$ 37,893

4. 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 September 30, 2024 and December 31, 2023, 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 future trends and other information. For the three months ended September 30, 2024 and 2023, there was one customer that comprised 20% of the Company's revenues and one customer that comprised 27% of the Company's revenues, respectively. For the nine months ended September 30, 2024 and 2023, there was one customer that comprised 19% of the Company's revenues and one customer that comprised 22% of the Company's revenues, respectively. Revenue for the customer is included in the Company's wholesale biomass segment. As of September 30, 2024 and December 31, 2023, the customer had a balance due to the Company of \$2.4 million and \$0.7 million, respectively.

5. INVENTORY

Inventory consisted of the following (in thousands):

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Raw Materials	\$ 1,365	\$ 1,192
Work-in-Process	8,473	3,327
Finished Goods	6,930	4,321
Total Inventory	\$ 16,768	\$ 8,840

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 (in thousands):

	5042 Real Estate Investment, LLC	Reeform, LLC	Lompoc TIC, LLC	TOTAL
Balance at December 31, 2023	\$ 1,971	\$ 164	\$ 192	\$ 2,327
Gain (Loss) on Equity Method Investments	145	(164)	(12)	(31)
Balance at September 30, 2024	\$ 2,116	\$ —	\$ 180	\$ 2,296

During the three months ended September 30, 2024 and 2023, the Company recorded net gains from equity method investments of \$45 thousand and \$91 thousand, respectively. During the nine months ended September 30, 2024 and 2023, the Company recorded net losses from equity method investments of \$31 thousand and \$2.1 million, respectively. Equity investments are classified as Level 3 investments in the fair value hierarchy. 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.

GLASS HOUSE BRANDS INC.**Notes to Unaudited Condensed Interim Consolidated Financial Statements***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***7. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consisted of the following (in thousands):

	September 30, 2024	December 31, 2023
Land	\$ 70,888	\$ 70,888
Buildings	153,995	143,207
Furniture and Fixtures	1,230	827
Leasehold Improvements	15,237	14,680
Equipment and Software	10,677	9,498
Construction in Progress	4,948	10,166
Total Property, Plant and Equipment	256,975	249,266
Less Accumulated Depreciation and Amortization	(43,757)	(33,580)
Property, Plant and Equipment, Net	\$ 213,218	\$ 215,686

During the three months ended September 30, 2024 and 2023, the Company recorded depreciation expense of \$3.5 million in each period. During the nine months ended September 30, 2024 and 2023, the Company recorded depreciation expense of \$10.6 million and \$10.2 million, respectively. The amount of amortization recognized for finance leases during the three months ended September 30, 2024 and 2023 was \$0.1 million in each period. The amount of amortization recognized for finance leases during the nine months ended September 30, 2024 and 2023 was \$0.4 million and \$0.2 million, respectively, see Note 12 – Leases for further information. During the three months ended September 30, 2024 and 2023, the Company capitalized interest to property and equipment of nil and \$0.1 million, respectively. During the nine months ended September 30, 2024 and 2023, the Company capitalized interest to property and equipment of nil and \$0.3 million, respectively.

8. INTANGIBLE ASSETS

Intangible assets consisted of the following (in thousands):

	September 30, 2024	December 31, 2023
Definite Lived Intangible Assets		
Customer Relationships	\$ 587	\$ 587
Intellectual Property	4,777	4,777
Total Definite Lived Intangible Assets	5,364	5,364
Less Accumulated Amortization	(2,853)	(2,321)
Definite Lived Intangible Assets, Net	2,511	3,043
Indefinite Lived Intangible Assets		
Cannabis Licenses	11,870	18,170
Total Indefinite Lived Intangible Assets	11,870	18,170
Total Intangible Assets, Net	\$ 14,381	\$ 21,213

During the three months ended September 30, 2024 and 2023, the Company recorded amortization expense related to intangible assets of \$0.2 million in each period. During the nine months ended September 30, 2024 and 2023, the Company recorded amortization expense related to intangible assets of \$0.5 million and \$0.9 million, respectively.

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

During the three months ended September 30, 2024, the Company recognized \$6.3 million of other than temporary impairment in its cannabis licenses related to its retail reportable segment as a result of updated earnings projections for unforeseen changes in the market from more than expected retail competition. During the nine months ended September 30, 2023, the Company recognized \$2.0 million and \$3.5 million of other than temporary impairment in customer relationships and intellectual property, respectively, related to its consumer packaged goods reportable segment as a result of updated earnings projections for unforeseen changes in market demand in the consumer packaged goods market. During the nine months ended September 30, 2023, the Company recognized \$1.3 million of other than temporary impairment in its cannabis licenses related to its retail reportable segment.

The following is the future minimum amortization expense to be recognized as of September 30, 2024 for each of the following years (in thousands):

2024 (Remaining)	\$	181
2025		723
2026		603
2027		470
2028		123
Thereafter		411
Total Future Amortization Expense	\$	<u>2,511</u>

9. GOODWILL

As of September 30, 2024 and December 31, 2023, goodwill was nil.

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. During the nine months ended September 30, 2023, management noted indications of impairment on the goodwill of its CPG reporting unit and recorded an impairment expense of \$14.1 million as a result of updated earnings projections for unforeseen changes in market demand in the consumer-packaged goods market.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following (in thousands):

	September 30, 2024	December 31, 2023
Accounts Payable	\$ 7,095	\$ 5,540
Accrued Liabilities	17,883	13,123
Accrued Payroll and Related Liabilities	3,465	5,351
Sales Tax and Cannabis Taxes	4,310	2,918
Total Accounts Payable and Accrued Liabilities	\$ <u>32,753</u>	\$ <u>26,932</u>

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 September 30, 2024 and December 31, 2023, was approximately \$0.4 million and \$1.1 million, respectively.

11. CONTINGENT SHARES AND EARNOUT LIABILITIES

Activity related to the contingent shares and earnout liabilities consisted of the following (in thousands):

Balance at December 31, 2023	\$ 34,589
Change in Fair Value of Contingent Liabilities	6,453
Balance at March 31, 2024	41,042
Change in Fair Value of Contingent Liabilities	(7,910)
Balance at June 30, 2024	33,132
Change in Fair Value of Contingent Liabilities	(967)
Balance at September 30, 2024	\$ 32,165
Balance at December 31, 2022	\$ 14,657
Change in Fair Value of Contingent Liabilities	3,402
Balance at March 31, 2023	18,059
Contingent Shares Issued	(4,446)
Change in Fair Value of Contingent Liabilities	19,101
Balance at June 30, 2023	32,714
Change in Fair Value of Contingent Liabilities	(4,030)
Balance at September 30, 2023	\$ 28,684

During the three months ended September 30, 2024 and 2023, the Company recorded gains for the change in fair value of contingent liabilities of \$0.9 million and \$4.0 million, respectively. During the nine months ended September 30, 2024 and 2023, the Company recorded a gain and a loss, respectively, for the change in fair value of contingent liabilities of \$2.4 million and \$18.5 million, respectively. Contingent shares and contingent liabilities are classified as Level 3 investments in the fair value hierarchy. The value of contingent shares is based upon the value of the Company's Equity Shares, the probability of future events occurring and other unobservable inputs. The value of contingent liabilities 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. There were no transfers into or out of Level 3 of the fair value hierarchy.

During the nine months ended September 30, 2023, the Company determined the criteria applicable to \$2.0 million of sponsor earnout liability related to the Mercer Park Business Combination (as defined in Note 15) was not satisfied at the expiration of the earnout period and recorded the change in fair value of contingent consideration. Accordingly, as of September 30, 2023, the sponsor earnout liability was nil. During the nine months ended September 30, 2023, the Company reclassified \$4.4 million of contingent shares payable to additional paid-in-capital and issued Equity Shares to settle a share payable contractual requirement related to the Plus Products Holdings, Inc. ("Plus Products") business acquisition.

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12. LEASES

The following table presents components of lease cost (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Finance Lease Cost:				
Amortization of Finance Lease Right-of-Use Assets	\$ 166	\$ 103	\$ 436	\$ 191
Interest on Lease Liabilities	70	53	190	108
Operating Lease Cost	639	601	1,917	1,802
Short-Term Lease Costs	242	410	806	885
Total Lease Expenses	\$ 1,117	\$ 1,167	\$ 3,349	\$ 2,986

Additional information related to the Company's leases is as follows (in thousands, except lease term and discount rate):

	Nine Months Ended	
	September 30,	
	2024	2023
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating Cash Flows from Finance Leases	\$ 185	\$ 96
Operating Cash Flows from Operating Leases	\$ 1,874	\$ 1,712
Financing Cash Flows from Finance Leases	\$ 405	\$ 167
Non-Cash Additions to Right-of-Use Assets and Lease Liabilities:		
Recognition of Right-of-Use Assets for Finance Leases	\$ 937	\$ 1,745
Recognition of Right-of-Use Assets for Operating Leases	\$ 458	\$ —
Weighted-Average Remaining Lease Term (Years) - Finance Leases	3	4
Weighted-Average Remaining Lease Term (Years) - Operating Leases	6	7
Weighted-Average Discount Rate - Finance Leases	11.74%	11.32%
Weighted-Average Discount Rate - Operating Leases	11.47%	11.49%

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Future minimum lease payments under non-cancelable finance and operating leases as of September 30, 2024 for each of the following years were as follows (in thousands):

	Operating Leases		Finance Leases	
	Third Parties	Related Parties	Third Parties	Total
2024 (Remaining)	\$ 354	\$ 273	\$ 233	\$ 860
2025	1,399	922	972	3,293
2026	1,373	571	768	2,712
2027	1,127	588	585	2,300
2028	537	606	198	1,341
Thereafter	1,601	2,320	—	3,921
Total Future Minimum Lease Payments	6,391	5,280	2,756	14,427
Less: Imputed Interest	(1,692)	(1,527)	(439)	(3,658)
Present Value of Lease Liability	4,699	3,753	2,317	10,769
Less: Current Portion of Lease Liability	(912)	(709)	(762)	(2,383)
Present Value of Lease Liability, Net of Current Portion	\$ 3,787	\$ 3,044	\$ 1,555	\$ 8,386

On September 14, 2021, the Company entered into an agreement to lease out a portion of its real property at approximately \$500 thousand per month for 36 months. However, lease payments to the Company are abated if certain contingencies were met by the lessee. During the nine months ended September 30, 2024, such contingencies were 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.

13. NOTES PAYABLE AND CONVERTIBLE DEBENTURES

Notes payable consisted of the following (in thousands):

	September 30, 2024	December 31, 2023
Term loan payable maturing in November 30, 2026, bearing interest at 12.00 percent per annum	\$ 43,750	\$ 49,375
Convertible Debentures	16,006	16,006
Other	394	435
Total Notes Payable	60,150	65,816
Less: Unamortized Debt Issuance Costs and Loan Origination Fees	(397)	(1,753)
Net Amount	59,753	64,063
Less: Current Portion of Notes Payable	(7,553)	(7,550)
Notes Payable, Net of Current Portion	\$ 52,200	\$ 56,513

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 million with funds managed by a U.S.-based private credit investment fund and other participating 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 million. Beginning 24 months following the Senior Secure Closing Date, the principal amount is repaid in monthly installments in an aggregate amount equal to 1.25% per annum of the original principal amount through the November 30, 2026 maturity date. Beginning on December 31, 2021, interest is paid 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 September 30, 2024 and December 31, 2023, the interest rate was 12%.

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 million into an escrow account, which is included as restricted cash in the Condensed Consolidated Balance Sheets as of September 30, 2024 and December 31, 2023. Additionally, the Company’s equity interests held in its subsidiaries, including, without limitation, in Glass House Farm LLC, Magu Farm LLC and GH Camarillo LLC, which subsidiaries hold title to the Company’s real property, were pledged as security.

The Credit Agreement contains a financial covenant which requires the Company to maintain liquidity in excess of \$10 million at all times. As of September 30, 2024 and December 31, 2023, the Company was in compliance with such financial covenant. Additionally, there are certain covenants which require the Company to maintain a specific minimum debt service coverage ratio (the “DSCR”) 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 by the Senior Secured Lender.

On May 12, 2022, the Company amended and restated the Credit Agreement (the “2nd Amendment”) wherein certain events of default were waived by the Senior Secured Lender, and the Company entered into an incremental term loan in the amount of \$10 million (the “Incremental Term Loan”), for total available proceeds of \$110 million payable in monthly installments at an interest rate of 10% per annum. In addition, a 1% fee of the outstanding principal amount of the Incremental Term Loan was 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 Equity Shares 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 thousand related to the change in terms of the Credit Agreement. In addition to receiving the \$10 million in Incremental Term Loan, the Company paid \$0.6 million in direct loan fees, which were recorded as a debt discount. On August 30, 2022, the Company fully repaid the \$10 million Incremental Term Loan in cash.

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 the DSCR beginning with the quarter ending on June 30, 2023. As of September 30, 2024, the Company was in compliance with the DSCR covenant. In connection with the amendment to the Credit Agreement, the Company paid 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 \$1.0 million as other expense and paid such fee on July 27, 2023.

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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 GH Group Series C Preferred and GH Group Series D Preferred offerings and to amend the Credit Agreement to change the Minimum EBITDA requirement to have an annualized EBITDA of \$20.0 million for the fiscal quarter period ending December 31, 2023, a Last Twelve Month (“LTM”) EBITDA of \$20.0 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. As of September 30, 2024, the EBITDA requirements have been met.

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) CAD \$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 September 30, 2024, the balance of \$11.9 million and \$4.1 million for the Series A Notes and Series B Notes, respectively remain outstanding.

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, *Derivatives and Hedging*. 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 and are classified as Level 3 investments in the fair value hierarchy. During the three months ended September 30, 2024 and 2023, the Company recorded a change in derivative asset of approximately \$(539) thousand and \$93 thousand, respectively, as a component of change in fair value of derivatives assets in the Unaudited Condensed Interim Consolidated Statements of Operations. During the nine months ended September 30, 2024 and 2023, the Company recorded a change in derivative asset of approximately \$(684) thousand and \$223 thousand, respectively, as a component of change in fair value of derivatives assets in the Unaudited Condensed Interim Consolidated Statements of Operations. As of September 30, 2024 and December 31, 2023, fair value of the derivative instruments was \$877 thousand and \$193 thousand, respectively, included in other assets in the Unaudited Condensed Interim Consolidated Balance Sheets.

As of September 30, 2024, the scheduled maturities of notes payable for each of the following years were as follows (in thousands):

	Principal Payments
2024 (Remaining)	\$ 1,889
2025	7,558
2026	34,436
2027	16,267
Total Future Minimum Principal Payments	\$ 60,150

14. SHAREHOLDERS' EQUITY

As of September 30, 2024 and December 31, 2023, the authorized share capital of the Company was comprised of an unlimited number of (i) Subordinate Voting Shares, (ii) Restricted Voting Shares, (iii) Limited Voting Shares, (iv) Multiple Voting Shares and (v) Preferred Shares.

Multiple Voting Shares

The Company is authorized to issue an unlimited number of Multiple Voting Shares without nominal or par value. Holders of Multiple Voting Shares are entitled to receive notice of any meeting of shareholders of the Company, and to attend, vote and speak at such meetings, except those meetings at which only holders of a specific class of shares are entitled to vote separately as a class under the *Business Corporations Act* (British Columbia). On all matters upon which holders of Multiple Voting Shares are entitled to vote, each Multiple Voting Share entitles the holder thereof to 50 votes per Multiple Voting Share. Multiple Voting Shares are not entitled to dividends and are not convertible. The Multiple Voting Shares 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 Equity Shares are entitled to receive notice of, to attend (if applicable, virtually) and to vote at all meetings of shareholders of the Company, except that they are not able to vote (but are entitled to receive notice of, to attend and to speak) at those meetings at which the holders of a specific class are entitled to vote separately as a class under the *Business Corporations Act* (British Columbia) and except that holders of Limited Voting Shares are not entitled to vote for the election of directors of the Company. The Subordinate Voting Shares and Restricted Voting Shares carry one vote per share on all matters. The Limited Voting Shares carry one vote per share on all matters except the election of directors, as the holders of Limited Voting Shares do not have any entitlement to vote in respect of the election for directors of the Company.

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

Exchangeable Shares of MPB Acquisition Corp.

Exchangeable Shares are part of the authorized share capital of MPB Acquisition Corp. ("MPB"), a wholly-owned subsidiary of the Company, which entitle their holders to rights that are comparable to those rights attached to the Equity Shares. 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 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.

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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 U.S. securities laws but may dispose of the Exchangeable Shares without such restriction by exchanging them for Equity Shares. Changes in these assumptions would affect the presentation of the Exchangeable Shares from shareholders' equity to non-controlling interests; however, there would be no impact on earnings per share.

Preferred Shares of GH Group, Inc.

The authorized total number of preferred shares (the "GH Group Preferred Shares") of GH Group is 50,000,000 of which 45,000,000 shares are designated as shares of Series A Preferred Stock ("GH Group Series A Preferred"), 55,000 shares are designated as shares of Series B Preferred Stock ("GH Group Series B Preferred"), 5,000 shares are designated as shares of Series C Preferred Stock ("GH Group Series C Preferred") and 15,000 shares are designated as shares of Series D Preferred Stock ("GH Group Series D Preferred"). GH Group Series A Preferred shares were redeemed or converted prior to December 31, 2022. 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 its 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 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 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 49,969 shares of the GH Group Series B Preferred issued and outstanding as of September 30, 2024 and December 31, 2023; there were 5,000 shares of the GH Group Series C Preferred issued and outstanding as of September 30, 2024 and December 31, 2023; and there were 15,000 shares of the GH Group Series D Preferred issued and outstanding as of September 30, 2024 and December 31, 2023. In accordance with the provisions above, the Company recorded dividends to the holders of the GH Group Preferred Shares in the amount of \$3.9 million and \$3.4 million for the three months ended September 30, 2024 and 2023, respectively, and \$11.4 million and \$9.1 million for the nine months ended September 30, 2024 and 2023, respectively.

Share and Equity Transactions

During the three months ended September 30, 2024, the Company issued 190,575, 107,379 and 167,843 Equity Shares in relief of deferred Equity Shares payable as contractually required for the fiscal year 2022 acquisitions of Natural Healing Center, LLC, NHC Lemoore, LLC and NHC-MB LLC, respectively. Accordingly, the Company reclassified \$3.8 million of shares payable to equity.

During the nine months ended September 30, 2024, the Company issued 92,643 shares in payment of \$0.6 million of accrued interest.

Non-Controlling Interests

Non-controlling interests represent 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.

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The Company recorded income attributable to a non-controlling interest during the three months ended September 30, 2024 and 2023 of \$41 thousand and \$63 thousand, respectively. The Company recorded income attributable to a non-controlling interest and during the nine months ended September 30, 2024 and 2023 of \$146 thousand and \$126 thousand, 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.

Variable Interest Entity

The below table summarizes information for entities the Company has concluded to be variable interest entities (“VIE”) 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.

The aggregate balances of the VIE included in the accompanying Unaudited Condensed Interim Consolidated Balance Sheets and Unaudited Condensed Interim Consolidated Statements of Operations were as follows below as of and for the nine months ended September 30, 2024 (in thousands):

	September 30, 2024
Current Assets	\$ 256
Non-Current Assets	4,279
Total Assets	\$ 4,535
Current Liabilities	\$ 7
Non-Current Liabilities	235
Total Liabilities	\$ 242
Revenues, Net	\$ 180
Net Income Attributable to Non-Controlling Interest	\$ 99

15. 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.

GLASS HOUSE BRANDS INC.

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Stock Options

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

	Number of Stock Options	Weighted-Average Exercise Price
Outstanding as of December 31, 2023	1,435,794	\$ 2.84
Exercised	(836,076)	2.74
Outstanding as of September 30, 2024	599,718	3.02

The following table summarizes the stock options that remain outstanding as of September 30, 2024:

Security Issuable	Exercise Price	Expiration Date	Stock Options Outstanding
Equity Shares	\$ 2.26	October 2024	44,316
Equity Shares	3.08	April 2025	447,389
Equity Shares	3.08	January 2026	108,013
			599,718

As of September 30, 2024 and December 31, 2023, options vested and exercisable were 599,718 and 1,416,870, respectively. During the three months ended September 30, 2024 and 2023, the Company recognized nil and \$45 thousand, respectively, in share-based compensation expense related to these stock options and was included as a component of general and administrative expense in the Unaudited Condensed Interim Consolidated Statements of Operations. During the nine months ended September 30, 2024 and 2023, the Company recognized \$3 thousand and \$253 thousand, respectively, in share-based compensation expense related to these stock options and was included as a component of general and administrative expense in the Unaudited Condensed Interim Consolidated Statements of Operations. As of September 30, 2024, options outstanding had a weighted-average remaining contractual life of 0.64 years.

On June 29, 2021, Mercer Park, a special purpose acquisition corporation (or “SPAC”) listed on the NEO Exchange Inc. (currently, Cboe Canada) in Canada, consummated its qualifying transaction (the “Business Combination”) pursuant to the terms of an Agreement and Plan of Merger dated as of April 8, 2021, as amended (the “Business Combination Agreement”), pursuant to which Mercer Park indirectly acquired 100% of the common equity interests of GH Group. The Business Combination was effectuated by a reverse merger of an indirect subsidiary of Mercer Park with GH Group, with GH Group as the surviving entity that became a majority-owned indirect subsidiary of the Company. Immediately prior to the close of the Business Combination, GH Group had outstanding vested and unvested options. Incident to the close, certain options were exercised. Of the remaining options, the vested GH Group non-qualified stock options (“NQSOs”) were paid the net-value of their outstanding options at close by reserving 1.4 million Subordinate Voting Shares which were to be issued on or before June 29, 2024. Prior to the issuance of the shares, the Company recorded \$2.8 million in Shares Payable on the Consolidated Balance Sheet. During June 2024, the Company issued 1,433,810 shares reflected in Shares Issued for Vested GH Group Non-Qualified Options on the Condensed Interim Consolidated Statements of Changes in Shareholders’ Equity and reclassified \$2.8 million from Shares Payable to Additional Paid-In Capital on the Unaudited Condensed Interim Consolidated Balance Sheet.

Restricted Stock Units

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

	Number of Restricted Stock Units
Unvested as of December 31, 2023	2,533,575
Granted	3,147,418
Vested	(2,135,155)
Forfeited	(83,333)
Unvested as of September 30, 2024	3,462,505

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During the three months ended September 30, 2024 and 2023, the Company recognized \$2.9 million and \$2.5 million, respectively, in stock-based compensation related to restricted stock units and was included as a component of general and administrative expense in the Unaudited Condensed Interim Consolidated Statements of Operations. During the nine months ended September 30, 2024 and 2023, the Company recognized \$9.8 million and \$5.5 million, respectively, in stock-based compensation related to restricted stock units and was included as a component of general and administrative expense in the Unaudited Condensed Interim Consolidated Statements of Operations. The fair value of the restricted stock units granted during the nine months ended September 30, 2024 was determined using the value of the Equity Shares at the date of grant.

Stock Appreciation Right Units

During the year ended December 31, 2020, GH Group granted 230,752 stock appreciation rights (“SARs”) to various employees of the Company. The SARs vested 33% one year after the grant date and the remaining 67% vested monthly, after the initial vesting, 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 as of the exercise date over the stated strike price of the SAR. As the SARs are cash-settled, the Company recognizes the value of the SARs as liabilities which are included in accounts payable and accrued liabilities in the Unaudited Condensed Interim Consolidated Balance Sheets. As of September 30, 2024 and December 31, 2023, the Company recorded a liability of \$0.3 million and \$0.2 million, respectively.

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

	Number of Stock Appreciation Rights Units
Outstanding as of December 31, 2023	135,916
Exercised	(62,922)
Forfeited	(27,216)
Outstanding as of September 30, 2024	45,778

During the three months ended September 30, 2024 and 2023, the Company recognized \$25 thousand and \$86 thousand, respectively, in expense related to SARs. During the nine months ended September 30, 2024 and 2023, the Company recognized \$421 thousand and \$100 thousand, respectively, in expense related to SARs.

Warrants

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

	Number of Warrants	Weighted-Average Exercise Price
Outstanding as of December 31, 2023	47,318,882	\$ 9.56
Exercised	(272,517)	5.07
Expired	(2,654,445)	10.00
Outstanding as of September 30, 2024	44,391,920	9.56

The following table summarizes the warrants that remained outstanding as of September 30, 2024:

Security Issuable	Exercise Price	Expiration Date	Warrants Outstanding	Warrants Exercisable
Equity Shares	\$ 11.50	June 2026	30,664,500	30,664,500
Equity Shares	5.00	August 2027	10,747,420	10,747,420
Equity Shares	6.00	August 2028	2,980,000	2,980,000
			44,391,920	44,391,920

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As of September 30, 2024, warrants outstanding had a weighted-average remaining contractual life of 2.17 years.

16. LOSS PER SHARE

The following is a reconciliation for the calculation of basic and diluted loss per share (in thousands, except share and per share data):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Net Loss Attributable to the Company	\$ (3,249)	\$ (274)	\$ (11,584)	\$ (60,072)
Less: Dividends and Increase in Redemption Values of GH Group Preferred Shares	(3,903)	(7,270)	(11,431)	(13,101)
Adjusted Net Loss Attributable to the Company	<u>\$ (7,152)</u>	<u>\$ (7,544)</u>	<u>\$ (23,015)</u>	<u>\$ (73,173)</u>
Weighted-Average Shares Outstanding - Basic	75,962,337	72,018,714	74,352,307	72,216,018
Weighted-Average Shares Outstanding - Diluted	75,962,337	72,018,714	74,352,307	72,216,018
Loss Per Share - Basic	\$ (0.09)	\$ (0.10)	\$ (0.31)	\$ (1.01)
Loss Per Share - Diluted	\$ (0.09)	\$ (0.10)	\$ (0.31)	\$ (1.01)

For the three months ended September 30, 2024 and 2023 and the nine months ended September 30, 2024 and 2023, diluted loss per share was the same as basic loss per share as the potential issuance of shares related to stock-based award plans, warrants and convertible debentures were anti-dilutive.

The following common equivalent shares were excluded from the Loss Per Share - Diluted calculation because their inclusion would have been anti-dilutive:

	For the Three Month Loss Per Share		For the Nine Month Loss Per Share	
	As of September 30,		As of September 30,	
	2024	2023	2024	2023
Stock Award Plans	4,062,223	4,645,251	4,062,223	4,645,251
Warrants	44,391,920	46,498,882	44,391,920	46,498,882
Convertible Debentures	1,721,269	3,545,876	1,721,269	3,545,876
Total	<u>50,175,412</u>	<u>54,690,009</u>	<u>50,175,412</u>	<u>54,690,009</u>

Net loss 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 potential issuance of shares related to convertible debentures, warrants and stock-based compensation grants are antidilutive. After adjustments, as defined in ASC 260, if the Company is in a net income position, diluted earnings per share includes shares related to convertible debentures, warrants, stock-based compensation grants and contingently issuable shares that are determined to be dilutive using the treasury stock method for all equity instruments issuable in equity units and the “if converted” method for the Company’s convertible debentures.

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17. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES

Provision for income taxes consisted of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Current:				
Federal	\$ 9,221	\$ 4,947	\$ 11,316	\$ 10,994
State	(286)	1,773	(1,344)	3,672
Total Current	8,935	6,720	9,972	14,666
Deferred:				
Federal	—	(141)	—	(248)
State	—	(85)	—	(257)
Total Deferred	—	(226)	—	(505)
Total Provision for Income Taxes	\$ 8,935	\$ 6,494	\$ 9,972	\$ 14,161

The Company has used a discrete effective tax rate method to calculate taxes for the three and nine months ended September 30, 2024 and 2023. The Company determined that since small changes in estimated ordinary income would result in significant changes in the estimated annual effective tax rate, the historical method would not provide a reliable estimate for the fiscal three and nine-month periods ended September 30, 2024 and 2023.

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. 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.

Based on legal interpretation, it is the Company's position that it does not owe taxes attributable to the application of Section 280E. Additionally, the Company has determined that the tax impact of its corporate overhead allocation was less likely than not to be sustained on the merits as required under ASC 740, *Income Taxes*, due to the evolving interpretations of Section 280E. The Company included in the balance of total unrecognized tax benefits as of September 30, 2024 a potential benefit of \$20.2 million that if recognized would impact the effective tax rate on income from operations, of which \$12.5 million is related to our tax positions based on legal interpretations that challenge the Company's tax liability under Section 280E. The Company included in the balance of total unrecognized tax benefits as of December 31, 2023 a potential benefit of \$5.4 million 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 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 September 30, 2024, 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) and the 2021 federal tax returns of Mission Health Associates, Inc. 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.

18. 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 was in compliance with applicable local and state statutes, regulations, and ordinances as of September 30, 2024 and December 31, 2023, 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.

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 September 30, 2024 and December 31, 2023, there were 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 Litigation

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. Through the process of litigation, 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 \$2.9 million to settle the Element 7 Proceeding; provided, that if Element 7 paid GH Group \$1.9 million by December 15, 2023, then Element 7 would have been entitled to a credit of \$1.0 million towards the \$2.9 million 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 \$2.9 million in favor of GH Group. The Company is currently conducting debtor examinations in an effort to enforce the judgment.

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 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" doing business as Catalyst Cannabis Co.), 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 categorically denied all such allegations and asserted affirmative defenses.

On May 20, 2024, the Company voluntarily dismissed without prejudice the defamation lawsuit against the Catalyst Defendants.

On June 25, 2024, the Superior Court of California (Los Angeles County) dismissed the lawsuit filed by 562 Discount Med Inc. (doing business as Catalyst Cannabis Co.) against Glass House for unfair competition. The Court granted Glass House's motion for judgment on the pleadings with prejudice. On July 15, 2024, the Court entered a judgment in Glass House's favor, awarding costs against the plaintiff and concluding the case. On August 7, 2024, 562 Discount Med, Inc. filed a Notice of Appeal of the judgment of dismissal following an order granting a motion for judgment on the pleadings without leave to amend. No dates have been set for the appeal.

19. 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 thousand, increasing to \$243 thousand for years two to five. The lease was renewed for one year starting in October 2024. Rent expense for the three months ended September 30, 2024 and 2023 was \$93 thousand and \$223 thousand, respectively. Rent expense for the nine months ended September 30, 2024 and 2023 was \$280 thousand and \$345 thousand, 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 thousand, increasing to \$69 thousand for year two and increasing five percent per annum thereafter. Rent expense for the three months ended September 30, 2024 and 2023 was \$20 thousand and \$19 thousand, respectively. Rent expense for the nine months ended September 30, 2024 and 2023 was \$60 thousand and \$57 thousand, 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 commenced on the first calendar day after the Company publicly announced the opening of the retail location at the leased property (the "Commencement Date"), provides for an initial monthly rent of \$5 thousand starting April 19, 2022 until the Commencement Date. Effective on the Commencement Date, the initial annual base rent payment is \$144 thousand and increasing three percent per annum thereafter. Rent expense for the three months ended September 30, 2024 and 2023 was \$67 thousand in each period. Rent expense for the nine months ended September 30, 2024 and 2023 was \$202 thousand in each period.

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 thousand, increasing three percent per annum thereafter. Rent expense for the three months ended September 30, 2024 and 2023 was \$9 thousand in each period. Rent expense for the nine months ended September 30, 2024 and 2023 was \$27 thousand in each period.

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 \$11 thousand for mergers and acquisitions advisory and assistance and real estate acquisition and financing services. The agreement may be terminated by either party for any/or no reason without penalty upon seven days written notice. Consulting fees for the three months ended September 30, 2024 and 2023 were \$35 thousand and \$33 thousand, respectively. Consulting fees for the nine months ended September 30, 2024 and 2023 were \$105 thousand and \$98 thousand, respectively.

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Notes to Unaudited Condensed Interim Consolidated Financial Statements
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20. SEGMENT INFORMATION

Operations by reportable segment for the three months ended September 30, 2024 were as follows (in thousands):

	Three Months Ended September 30, 2024				
	Retail	Wholesale Biomass	CPG	Corporate and Other	Total
Revenues, Net	\$ 11,214	\$ 47,830	\$ 4,777	\$ —	\$ 63,821
Cost of Goods Sold	6,262	20,738	3,379	—	30,379
Gross Profit	4,952	27,092	1,398	—	33,442
Operating Expenses:					
General and Administrative	3,370	3,631	255	7,168	14,424
Sales and Marketing	474	60	10	76	620
Professional Fees	16	77	1	797	891
Depreciation and Amortization	377	2,906	185	263	3,731
Impairment Expense for Intangible Assets	—	—	—	6,300	6,300
Income (Loss) from Operations	715	20,418	947	(14,604)	7,476
Other (Income) Expense:					
Interest Expense	39	34	5	2,177	2,255
Gain on Equity Method Investments	—	—	—	(45)	(45)
Gain on Change in Fair Value of Derivative Asset	—	—	—	(539)	(539)
Loss on Change in Fair Value of Contingent Liabilities and Shares Payable	—	—	—	17	17
Other (Income) Expense, Net	(20)	53	12	16	61
Total Other Expense Net	19	87	17	1,626	1,749
Income (Loss) Before Income Taxes	\$ 696	\$ 20,331	\$ 930	\$ (16,230)	\$ 5,727
Total Assets as of September 30, 2024	\$ 24,753	\$ 241,483	\$ 12,091	\$ 34,402	\$ 312,729

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Operations by reportable segment for the three months ended September 30, 2023 were as follows (in thousands):

	Three Months Ended September 30, 2023				
	Retail	Wholesale Biomass	CPG	Corporate and Other	Total
Revenues, Net	\$ 10,058	\$ 33,839	\$ 4,290	\$ —	\$ 48,187
Cost of Goods Sold	4,464	13,663	4,049	—	22,176
Gross Profit	5,594	20,176	241	—	26,011
Operating Expenses:					
General and Administrative	3,259	2,413	746	8,769	15,187
Sales and Marketing	398	37	6	114	555
Professional Fees	14	5	28	1,659	1,706
Depreciation and Amortization	362	2,822	171	321	3,676
Income (Loss) from Operations	1,561	14,899	(710)	(10,863)	4,887
Other (Income) Expense:					
Interest Expense	41	4	3	2,111	2,159
Gain on Equity Method Investments	—	—	—	(91)	(91)
Loss on Change in Fair Value of Derivative Asset	—	—	—	93	93
Gain on Change in Fair Value of Contingent Liabilities and Shares Payable	—	—	—	(4,024)	(4,024)
Other (Income) Expense, Net	91	(133)	122	387	467
Total Other (Income) Expense Net	132	(129)	125	(1,524)	(1,396)
Income (Loss) Before Income Taxes	\$ 1,429	\$ 15,028	\$ (835)	\$ (9,339)	\$ 6,283
Total Assets as of December 31, 2023	\$ 27,054	\$ 220,054	\$ 12,774	\$ 43,893	\$ 303,775

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Operations by reportable segment for the nine months ended September 30, 2024 were as follows (in thousands):

	Nine Months Ended September 30, 2024				
	Retail	Wholesale Biomass	CPG	Corporate and Other	Total
Revenues, Net	\$ 32,020	\$ 102,830	\$ 13,009	\$ —	\$ 147,859
Cost of Goods Sold	16,653	46,904	9,660	—	73,217
Gross Profit	15,367	55,926	3,349	—	74,642
Operating Expenses:					
General and Administrative	10,150	9,127	1,019	25,022	45,318
Sales and Marketing	1,299	113	28	339	1,779
Professional Fees	25	176	34	6,179	6,414
Depreciation and Amortization	1,130	8,709	565	766	11,170
Impairment Expense for Intangible Assets	—	—	—	6,300	6,300
Income (Loss) from Operations	2,763	37,801	1,703	(38,606)	3,661
Other (Income) Expense:					
Interest Expense	122	62	17	6,853	7,054
Loss on Equity Method Investments	—	—	—	31	31
Gain on Change in Fair Value of Derivative Asset	—	—	—	(684)	(684)
Gain on Change in Fair Value of Contingent Liabilities and Shares Payable	—	—	—	(1,428)	(1,428)
Other Expense, Net	22	102	25	5	154
Total Other Expense Net	144	164	42	4,777	5,127
Income (Loss) Before Income Taxes	\$ 2,619	\$ 37,637	\$ 1,661	\$ (43,383)	\$ (1,466)

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

Operations by reportable segment for the nine months ended September 30, 2023 were as follows (in thousands):

	Nine Months Ended September 30, 2023				
	Retail	Wholesale Biomass	CPG	Corporate and Other	Total
Revenues, Net	\$ 29,504	\$ 78,944	\$ 11,959	\$ —	\$ 120,407
Cost of Goods Sold	13,143	33,956	10,351	—	57,450
Gross Profit	16,361	44,988	1,608	—	62,957
Operating Expenses:					
General and Administrative	9,683	6,755	2,308	20,882	39,628
Sales and Marketing	1,272	355	54	523	2,204
Professional Fees	80	164	134	5,028	5,406
Depreciation and Amortization	949	8,472	522	1,139	11,082
Impairment Expense for Goodwill	—	—	—	14,144	14,144
Impairment Expense for Intangible Assets	—	—	—	6,854	6,854
Income (Loss) from Operations	4,377	29,242	(1,410)	(48,570)	(16,361)
Other (Income) Expense:					
Interest Expense	56	22	9	6,699	6,786
Interest Income	—	—	—	(45)	(45)
Loss on Equity Method Investments	—	—	—	2,137	2,137
Loss on Change in Fair Value of Derivative Asset	—	—	—	223	223
Loss on Change in Fair Value of Contingent Liabilities and Shares Payable	—	—	—	18,486	18,486
Other Expense, Net	114	83	239	1,401	1,837
Total Other Expense Net	170	105	248	28,901	29,424
Income (Loss) Before Income Taxes	\$ 4,207	\$ 29,137	\$ (1,658)	\$ (77,471)	\$ (45,785)

21. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date these Unaudited Condensed Interim Consolidated Financial Statements were available to be issued.

At-The-Market Program

The Company entered into an equity distribution agreement (the “Equity Distribution Agreement”) with ATB Securities Inc. and Canaccord Genuity Corp., pursuant to which, the Company may from time to time sell up to \$25 million of its subordinate voting shares, restricted voting shares and limited voting shares (collectively, the “Equity Shares”) in an at-the-market distribution program (the “ATM Program”). The Company currently intends to use the net proceeds of the ATM Program, if any, primarily for an expansion of the Company’s facilities in Camarillo, California (the “Phase III expansion”), and/or general corporate purposes. Launch of the ATM Program is subject to the approval of Cboe Canada, the delivery of customary closing deliverables and the filing of a prospectus supplement to the Company’s base shelf prospectus dated May 16, 2024.

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Since the Equity Shares will be distributed at trading prices prevailing at the time of the sale, prices may vary between purchasers and during the period of distribution. The volume and timing of sales, if any, will be determined at the sole discretion of the Company's management and in accordance with the terms of the Equity Distribution Agreement.

Sales of Equity Shares, if any, under the ATM Program are anticipated to be made in transactions that are deemed to be "at-the-market distributions" as defined in National Instrument 44-102 *Shelf Distributions*, as sales made directly on Cboe Canada or any other recognized Canadian "marketplace" within the meaning of National Instrument 21-101 *Marketplace Operation*.