



# STATEHOUSE

H O L D I N G S

**STATEHOUSE HOLDINGS INC.**

**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2023**  
**(Expressed in United States Dollars)**

**July 31, 2024**

# STATEHOUSE HOLDINGS INC.

## Management's Discussion and Analysis For the Year Ended December 31, 2023

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This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of StateHouse Holdings Inc. ("StateHouse" or the "Company") is for the twelve months ended December 31, 2023. It is supplemental to, and should be read in conjunction with, the consolidated financial statements of StateHouse for the twelve months ended December 31, 2023 and 2022 (the "2023 Consolidated Financial Statements"). The 2023 Financial Statements and the financial information contained in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC"). In the opinion of management, all adjustments considered necessary for a fair presentation of the financial condition and results of operations of StateHouse for the twelve months ended December 31, 2023 have been included in this MD&A. In preparing this MD&A, management has taken into account information available up to July 31, 2024. Unless otherwise indicated, all figures presented in this MD&A are expressed in United States Dollars ("\$" or "USD"). All references to "C\$" or "CAD" pertain to Canadian Dollars. Unless the context otherwise requires, references in this MD&A to the "Company", "StateHouse", "we", "us" or "our" refers to StateHouse Holdings Inc. and its subsidiaries.

This MD&A has been prepared with reference to the MD&A disclosure requirements of National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators ("CSA") and CSA Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana Related Activities (the "Staff Notice").

### Cautionary Note Regarding Forward-Looking Statements

This MD&A contains "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian securities laws and United States securities laws ("forward-looking statements"). All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements are often identified by words such as "may", "would", "could", "should", "will", "intend", "plan", "seek", "anticipate", "believe", "estimate", "expect" or similar words and expressions. Examples of forward-looking statements include, among others, statements relating to information set out in this MD&A under the headings "Outlook and Growth Strategy", "Working Capital and Liquidity Outlook", and "Subsequent Events" and statements and information regarding: the Company's future financial position and results of operations, strategies, plans, objectives, goals and targets; future developments in the markets in which the Company participates or is seeking to participate; the potential divestiture of non-core assets; the potential closing of additional dispensaries; potential future legalization of adult-use and/or medical cannabis under U.S. federal law; expectations of market size and growth in the U.S. and the states in which the Company operates; expectations regarding the Company's position in the California cannabis sector; expectations of improved efficiencies, financial flexibility, future product offerings and integration opportunities; comparisons of the Company to other cannabis issuers in California; the ability of the board of directors of the Company (the "Board") to oversee the Company's business strategy and safeguard the interests of all shareholders and preserve and enhance shareholder value; expectations regarding the evolution of the regulatory landscape for cannabis and cannabis derivative products; the competitive conditions of the cannabis industry and the competitive and business strategies of the Company; expectations that increased scale and vertical integration will drive margin expansion; the acquisition of new branded products; the generation of additional revenue generating services; increased revenue to be received in connection with the new loyalty program; and, expectations for other economic, business, regulatory and/or competitive factors related to the Company or the cannabis industry generally and other events or conditions that may occur in the future. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on management's current beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions of the Company. Although the Company believes that the expectations, estimates, and projections reflected in such forward-looking statements are reasonable, such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance, or achievements to differ materially from those suggested by the forward-looking statements. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. On this basis, readers are cautioned not to place undue reliance on such forward-looking statements.

Factors which could cause actual results to differ materially from those indicated in forward-looking statements include, but are not limited to: the expectations and assumptions on which the Company's strategies are based; the unfavorable tax treatment of cannabis businesses and the inability of the Company to benefit from certain tax deductions; litigation risks; the consolidation and expansion of the Company's retail footprint within California or in other geographic locations; the

scale and improvement of the Company's cannabis cultivation, production and/or manufacturing capabilities; the expansion of the Company's wholesale sales; launching new branded products; the Company's ability to position itself as one of California's premier vertically integrated cannabis companies; the Company's ability to manage the disruptions and volatility in the global capital markets; and the Company's ability to meet its working capital needs and financial covenants, including the cost and potential impact of complying with existing and proposed laws and regulations; as well as those other risks and uncertainties referenced in this MD&A under the heading "Risk Factors".

Readers are cautioned that the lists of risks, uncertainties and other factors contained herein are not exhaustive. The forward-looking statements contained in this MD&A are made as of the date hereof and are presented for the purpose of assisting investors and others in understanding StateHouse's financial position and results of operations, as well as its objectives and strategic priorities, and may not be appropriate for other purposes. The Company undertakes no obligation to publicly update or revise any forward-looking statements or any other documents filed with Canadian securities regulatory authorities, whether due to new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about the Company's prospective results of operations, production and production efficiency, commercialization, revenue and cash on hand, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraph. FOFI contained in this MD&A was approved by management as of the date of this MD&A and was provided for the purpose of providing further information about the Company's future business operations. The Company disclaims any intention or obligation to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

### **Use of Non-IFRS Financial Measures**

This MD&A contains references to "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Gross Profit" and "Adjusted Gross Margin", which are non-IFRS financial measures. These non-IFRS financial measures are not recognized under IFRS and, accordingly, users are cautioned that these measures should not be construed as alternatives to net income determined in accordance with IFRS. The non-IFRS measures presented may not be comparable to similar measures presented by other issuers.

Adjusted EBITDA is a measure of the Company's overall financial performance and is used as an alternative to earnings or income in some circumstances. Adjusted EBITDA is essentially net income (loss) with interest, taxes, depreciation and amortization, non-cash adjustments and other unusual or non-recurring items added back. Other unusual or non-recurring items include abnormal or non-recurring legal costs, mergers and acquisitions ("M&A") costs, as well as transaction expenses and restructuring expenses as these are not a part of the Company's core business and are not recurring in nature.

Adjusted EBITDA can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. Adjusted EBITDA is often used in valuation calculations and can be compared to enterprise value and revenue. The term Adjusted EBITDA does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies. Adjusted Gross Profit and Adjusted Gross Margin exclude the changes in fair value less costs to sell ("FVLCS") of the Company's biological assets. Management believes these measures provide useful information as they represent the gross profit based on the Company's cost to produce inventories sold while removing fair value measurements which are tied to changing inventory components and levels, as required by IFRS.

There are no comparable IFRS financial measures presented in the 2023 Consolidated Financial Statements. Reconciliations of the supplemental non-IFRS financial measures are presented in this MD&A. The Company provides the non-IFRS financial measures as supplemental information and in addition to the financial measures that are calculated and presented in accordance with IFRS. These supplemental non-IFRS financial measures are presented because management believes such measures provide information which is useful to shareholders and investors in understanding its performance and which may assist in the evaluation of the Company's business relative to that of its peers. However, such measures should not be considered superior to, as a substitute for or as an alternative to, and should only be considered in conjunction with, the most comparable IFRS financial measures.

## Additional Information

Additional information relating to StateHouse, including the Company's annual information form, can be found on the Company's SEDAR+ profile at [www.sedarplus.ca](http://www.sedarplus.ca), or its website at <https://www.statehouseholdings.com/>.

## Overview of the Company

StateHouse Holdings Inc. ("StateHouse" or the "Company"), through its affiliated entities, is a fully licensed, vertically integrated omni-channel California cannabis company, with its business consisting of three primary revenue streams: (i) retail, including direct to consumer and delivery, (ii) branded wholesale and manufacturing revenue, including wholesale product sales to dispensary customers and other distributors, "white label" manufactured products for other third-party businesses who typically put their own branding on the product, and revenue from the distribution of products for other cannabis companies, and (iii) cultivation, including the sale and delivery of cannabis in the wholesale market and cultivation management services. The Company operates in and/or has ownership interests in California and Oregon, pursuant to state and local laws and regulations, and is focused on building and maintaining its position as one of California's premier vertically integrated cannabis companies.

The Company's high quality integrated seed-to-sale operations are focused on building winning brands which are supported by its omni-channel ecosystem. The Company owns a number of different cannabis brands, including: "Dimebag", "Fuzzies", "Harborside", "Harborside Farms", "KEY", "Kingpen", "Kingroll", "Loudpack", "Sublime", "Terpene Station", and "Urbn Leaf". In addition, the Company exclusively licenses the "Smokiez" brand in California. The operational footprint of the Company spans cultivation, extraction, manufacturing, branding, distribution, retail and delivery. The Company's integrated supply chain and omni-channel platform allows for greater product margins due to the creation of cannabis products using Company produced materials from its cultivation and manufacturing operations, which are then sold to other retail dispensaries, delivery services and distributors (collectively, "Retailers") throughout the state of California, as well as directly to consumers through Company owned or controlled retail and delivery operations.

On March 1, 2022, pursuant to the terms of a definitive agreement dated November 29, 2021 between the Company, UL Holdings Inc. ("Urbn Leaf"), Saturn Merger Sub Inc. and Momentum Capital Group, LLC, in its capacity as the representative of the shareholders of Urbn Leaf, the Company acquired 100% of the equity interests of Urbn Leaf (the "Urbn Leaf Acquisition").

On March 1, 2022, the Company issued 60,000,000 SVS, valued at approximately \$26,284,000, as part of the purchase consideration for Urbn Leaf Acquisition.

On March 31, 2022, the Company completed the mandatory conversion (the "Mandatory Conversion") of all its issued and outstanding multiple voting shares ("MVS") into subordinate voting shares ("SVS"). Pursuant to the Mandatory Conversion, each holder of MVS received 100 SVS for each MVS it held.

On April 4, 2022, pursuant to the terms of a definitive agreement dated November 29, 2021 between the Company, LPF JV Corporation ("Loudpack"), LPF Merger Sub, Inc. and LPF Holdco, LLC, the Company acquired 100% of the equity interests of Loudpack (the "Loudpack Acquisition").

On April 4, 2022, the Company issued 90,752,140 SVS, valued at approximately \$42,518,000, as part of the purchase consideration for the Loudpack Acquisition.

On July 25, 2022, the Company completed its name change (the "Name Change") from "Harborside Inc." to "StateHouse Holdings Inc." and completed the reclassification (the "Reclassification") of its issued and outstanding SVS to common shares ("Common Shares") on a one for one basis. The Name Change was approved by shareholders of the Company at the special meeting of the shareholders held on February 22, 2022. The Reclassification was approved by shareholders of the Company at the annual and special meeting of shareholders held on June 23, 2022. Effective July 25, 2022, the Common Shares began trading on the Canadian Securities Exchange (the "CSE") under the new ticker symbol "STHZ" and on the OTCQX Best Market under the new ticker symbol "STHZF". As a result of the Reclassification, all SVS and MVS referenced throughout this MD&A that were issued prior to July 25, 2022 have been reclassified as Common Shares.

On July 17, 2023, as consideration for entering into the Ninth Amendment, the Company granted 136,258,279 common share purchase warrants (the "Pelorus Warrants") to Pelorus Fund REIT, LLC ("Pelorus"), amounting to 40% of the Senior Secured Debt (See Note 14, *Notes Payable*, in the 2023 Consolidated Financial Statements for the Company's disclosures

on the Senior Secured Debt). The Pelorus Warrants are exercisable for a period of three years, with an exercise price that is adjusted based on a weighted-average dilution basis. Pelorus is prohibited from exercising the warrants if, upon exercise, Pelorus would beneficially own greater than 9.99% of the outstanding common shares of the Company.

The Common Shares transitioned to the OTCQB<sup>®</sup> Venture Market after market close on August 18, 2023, from the OTCQX<sup>®</sup> Best Market. On May 16, 2024 the Common Shares were transitioned to the Expert Market, and the Company will consider moving to the OTCQB in the future. The Common Shares continue to trade under the symbol “STHZF” on the OTCQB<sup>®</sup> and on the CSE under the symbol “STHZ”.

The Company’s registered office is located at 40 King St. West, Suite 2100, Toronto, Ontario, M5H 3C2, Canada. The Company’s head office is located at 1028 Buenos Ave., San Diego, California 92110, United States.

## **Retail Dispensaries**

The Company’s retail dispensaries serve both adult-use and medical cannabis customers. The Company’s retail presence was initially established in 2006, and today includes the following:

- Four owned and operated Harborside-branded retail dispensaries located in Oakland, San Jose, San Leandro and Desert Hot Springs, California. San Leandro and Desert Hot Springs were listed as held for sale as of December 31, 2023;
- Six owned and operated Urbn Leaf-branded retail dispensaries located in San Diego, San Ysidro, La Mesa, Grover Beach, San Jose and Vista, California. San Jose and La Mesa were listed as held for sale as of December 31, 2023;
- One owned and operated dispensary (LCGLORDIS2 LLC) located in Eugene, Oregon, which was classified as held for sale as of December 31, 2023, and was sold on April 26, 2024;
- An 80% interest in FGW Haight Inc. ("FGW"), a company which operates a Harborside-branded retail dispensary in the Haight Ashbury district of San Francisco (the "FGW Dispensary"). FGW opened the FGW Dispensary under the Harborside brand in April 2022. On October 27, 2023, the Company exercised its call option to acquire an additional 29.9% interest in FGW. Additionally, the Company converted its \$1,265,000 convertible note into an additional ownership of 29.1%. The issuance and conversion increased the Company's interest in FGW to 80%; and
- Direct to consumer retail delivery services which cover the greater San Francisco Bay Area of California (from its Harborside-branded retail stores in Oakland and San Jose) and the Grover Beach and Bay Park areas (from its Urbn Leaf-branded stores in each of these areas). The Company's direct to consumer offerings include an integrated ecommerce platform offering in-store pickup, curbside pick-up, express delivery and scheduled delivery, allowing the Company to extend its reach beyond physical retail locations and expand interactions with customers.

On January 9, 2023, the Company entered into a management services agreement with UL Management LLC and PDLP JV, LLC (the "Urbn Leaf WeHo Service Agreement") to manage and operate a dispensary under the Urbn Leaf brand in West Hollywood, California. The Urbn Leaf WeHo Service Agreement has an initial term of five years and is subject to three automatic renewals of five years for a total of 20 years. The Company has an indefinite right to acquire a 50% ownership in PDLP JV, LLC for no additional consideration.

## **Cultivation, Wholesale and Manufacturing**

The Company operates a cultivation and production facility in Salinas, California (the “Salinas Production Campus”), which covers an area of approximately 47 acres, of which approximately 11 acres are devoted to five light deprivation greenhouses containing approximately 200,000 total square feet (“sq. ft.”) of licensed cannabis cultivation. The cultivation operation includes approximately 155,000 sq. ft. of canopy space allocated to flowering plants and 45,000 sq. ft. of canopy allocated to nursery space. The Salinas Production Campus also includes approximately 20,000 sq. ft. of building space allocated to processing, product distribution, warehousing, storage and offices. All cannabis flower and trim grown at the Salinas Production Campus is cultivated using sustainable practices and the facility adheres to California’s rigorous horticulture and harvesting standards.

The Company employs a progressive approach to cannabis cultivation that is based on a science-based methodology from traditional horticulture. The Company’s cultivation team is constantly testing new genetics, substrates, different fertilization approaches and different growing environments. In addition, relationships with leading agriculture academic institutions such as Utah State University provide new insights on optimal cannabis techniques. The result is a weekly harvest schedule that ensures a steady supply of fresh, high-quality biomass for the Company’s manufacturing, white-label and bulk wholesale businesses.

The Company owns and operates a manufacturing facility in Greenfield, California (the “Greenfield Production Campus”). The Greenfield Production Campus includes approximately 55,000 sq. ft. of manufacturing and processing space along with distribution, warehouse and office space. The Greenfield Production Campus is capable of manufacturing and processing all of the products the Company currently offers. The Company has permits to develop approximately 60,000 sq. ft. of additional cultivation, manufacturing, processing, and distribution at the Greenfield Production Campus and owns undeveloped land within one mile of the Greenfield Production Campus where it is locally permitted to develop approximately 400,000 sq. ft. of cultivation, manufacturing, processing and distribution space.

In connection with the integration with Loudpack following the Loudpack Acquisition, during the twelve months ended December 31, 2023, the Company moved cultivation activities taking place at the Greenfield Production Campus to the Salinas Production Campus.

The Greenfield Production Campus is one of the largest cannabis manufacturing facilities in California, from which the Company produces and distributes multiple cannabis brands, including but not limited to: (i) Loudpack-branded cannabis, pre-roll products and concentrates, (ii) Smokiez-branded edibles, (iii) Kingroll cannabis and pre-roll products, (iv) Dimebag-branded cannabis pre-roll and vape products, (v) Kingpen-branded vape products and cannabis batteries, (vi) Urbn Leaf-branded cannabis and pre-rolls, and (vii) Fuzzies-branded infused pre-rolls and cannabis flower products.

## Corporate Organization

The 2023 Consolidated Financial Statements have been prepared on a consolidated basis and incorporate the accounts of the Company and its subsidiaries, as follows:

Name	Jurisdiction	Purpose	Percentage Owned (%)	Percentage Owned (%)
			December 31, 2023	December 31, 2022
Statehouse Holdings Inc.	Ontario, Canada	Parent	100	100
658 East San Ysidro Blvd LLC	California, U.S.	Real Estate Holding Company	100	100
680 Broadway Master, LLC	California, U.S.	Operating Company	100	100
909 West Vista Way LLC	California, U.S.	Real Estate Holding Company	100	100
Accucanna Holdings Inc.	California, U.S.	Holding Company	100	100
Accucanna LLC	California, U.S.	Operating Company	100	100
Accucanna RE, LLC	California, U.S.	Operating Company	100	100
Auric Valley, Inc.	California, U.S.	Holding Company	100	100
Banana LLC	California, U.S.	Operating Company	75	75
Belling Distribution, Inc.	California, U.S.	Operating Company	100	100
Benmore LPFN, LLC	Delaware, U.S.	Holding Company	100	100
Calgen Trading Inc.	California, U.S.	Operating Company	100	100
CDRS Investor LLC	California, U.S.	Holding Company	100	100
CDRS Owner LLC	Delaware, U.S.	Holding Company	100	100
Encinal Productions RE, LLC	California, U.S.	Operating Company	100	100
Evergreen LPFN, LLC	Delaware, U.S.	Holding Company	100	100
FFC1, LLC	California, U.S.	Holding Company	100	100
FGW Haight Inc.	California, U.S.	Operating Company	80	21
FLRish Farms Cultivation 2, LLC	California, U.S.	Operating Company	100	100
FLRish Farms Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish, Inc.	California, U.S.	Management Company	100	100
FLRish IP, LLC	California, U.S.	Holding Company	100	100
FLRish Retail, LLC	California, U.S.	Holding Company	100	100
FLRish Retail Management & Security Services, LLC	California, U.S.	Management Company	100	100

Name	Jurisdiction	Purpose	Percentage Owned (%) December 31, 2023	Percentage Owned (%) December 31, 2022
Gilded Creek Partners Inc.	California, U.S.	Holding Company	100	100
Greenfield Organix, Inc.	California, U.S.	Operating Company	100	100
Greenfield Prop Owner, LLC	California, U.S.	Real Estate Holding Company	100	100
Greenfield Prop Owner II, LLC	California, U.S.	Real Estate Holding Company	100	100
Haight Acquisition Corporation	Delaware, U.S.	Holding Company	100	100
JLM Investment Group, LLC	California, U.S.	Holding Company	67	67
Lafayette Street Property Management LLC	California, U.S.	Operating Company	-	90
LGC Holdings USA, Inc.	Nevada, U.S.	Holding Company	100	100
LGC LOR DIS 1, LLC	Oregon, U.S.	Operating Company	100	100
LGC LOR DIS 2, LLC	Oregon, U.S.	Operating Company	100	100
Lineage GCL California, LLC	California, U.S.	Holding Company	100	100
Lineage GCL Oregon Corporation	Oregon, U.S.	Holding Company	100	100
LPF 4th Street, LLC	California, U.S.	Holding Company	100	100
LPF Bellflower, LLC	California, U.S.	Holding Company	100	100
LPF Consulting Group, LLC	California, U.S.	Holding Company	100	100
LPF Michigan LLC	California, U.S.	Holding Company	100	100
LPF Ohio, LLC	California, U.S.	Holding Company	100	100
LPF RE Manager, LLC	California, U.S.	Operating Company	100	100
LP-KP IP Holdings, LLC	California, U.S.	Holding Company	100	100
Lunar Management, LLC	California, U.S.	Holding Company	100	100
Oakland Machining Supply SLB LLC	California, U.S.	Holding Company	100	100
Ocean Ranch LPFN, LLC	California, U.S.	Holding Company	100	100
Patients Mutual Assistance Collective Corporation	California, U.S.	Operating Company	100	100
Redhunt Corporation	California, U.S.	Holding Company	100	100
San Jose Wellness Solutions Corp.	California, U.S.	Operating Company	100	100
San Leandro Wellness Solutions Inc.	California, U.S.	Operating Company	100	100
SaVaCa, LLC	California, U.S.	Holding Company	100	100
Savature Inc.	California, U.S.	Operating Company	100	100
SBC Management LLC	California, U.S.	Management Company	100	100
Sublimation Inc.	Delaware, U.S.	Holding Company	100	100
ULBP Inc.	California, U.S.	Operating Company	100	100
ULRB LLC	California, U.S.	Operating Company	-	80
UL Benicia LLC	California, U.S.	Operating Company	70	70
UL Chula Two LLC	California, U.S.	Operating Company	51	51
UL Holdings Inc.	California, U.S.	Holding Company	100	100
UL Kenamar LLC	California, U.S.	Operating Company	100	100
UL La Mesa LLC	California, U.S.	Operating Company	-	60
UL Management LLC	California, U.S.	Management Company	100	100
UL San Jose LLC	California, U.S.	Operating Company	100	100
UL Visalia LLC	California, U.S.	Operating Company	-	80
Unite Capital Corp.	Ontario, Canada	Holding Company	100	100
Uprooted, Inc.	California, U.S.	Operating Company	100	100
Uprooted LM LLC	California, U.S.	Operating Company	100	100

## Outlook and Growth Strategy

As the California market continues to develop, management sees potential growth in well-known retail dispensaries, as well as cannabis products that are trusted by consumers and which are focused on specific consumer demographics. The Company's portfolio of brands is positioned for growth through its own retail dispensaries and other retailers throughout California.

### Strategies

The business objectives the Company intends to accomplish in the upcoming 12-month period are as follows:

- Achieve cost savings and optimize efficiencies resulting from previous acquisitions, including improving margins on branded products produced by the Company;
- Expand the Company's branded product portfolio by creating or acquiring new branded products, leveraging its existing customer base and reputation to increase market share;
- Leverage existing Company expertise and infrastructure to grow additional revenue generating services such as the following:

- o Grow white-label revenue through partnerships with other companies, utilizing the Company’s manufacturing expertise and facilities,
- o Expand the Company’s offering of manufactured products by including specific third-party brands on the Company’s sales and distribution platform, and
- o Develop a management service offering to manage third-party owned cultivation facilities to improve operations and economics through scale and reliable supply chain;
- Increase revenue from the Company’s retail dispensaries by leveraging the cost-effective digital capabilities of the Company’s new loyalty program to increase customer loyalty and enhance the customer experience;
- Continue rationalization of profitable and unprofitable products, brands, locations, and services;
- Capitalize on demand for the high-quality excess flower and trim produced at the Company’s cultivation facilities;
- Explore new licenses, partnerships or acquisitions to add additional shelf space and overall retail growth;
- Assess the Company’s capital structure and balance sheet requirements to determine the best approach to reduce liabilities and/or pay them over time to help improve the Company’s financial position; and
- Negotiate arrangements pertaining to liabilities to minimize their impact on the business including working with creditors to negotiate mutually beneficial solutions.

Through a review of StateHouse’s existing retail dispensaries, management is exploring the divestiture of non-core assets in connection with the Company’s continued efforts to improve its profitability and to focus on maximizing its presence and impact in the California market. The Company has been actively marketing certain rights and interests in its non-core assets, including cannabis licenses in non-core geographies within California and selected retail operations in California, including the following as at July 31, 2024:

- On April 26, 2024, the Company closed on the sale of LCGLORDIS2 LLC. LCGLORDIS2 LLC was listed as held for sale as of December 31, 2023.
- Uprooted LM LLC was listed as held for sale as of December 31, 2023.
- Accucanna, LLC was listed as held for sale as of December 31, 2023.
- The Company dissolved several entities during 2024 including: UL Benicia, LLC dissolved on February 5, 2024, Ocean Ranch LPFN, LLC dissolved on May 13, 2024, Oakland Machining Supply SLB dissolved on May 14, 2024, LPF Ohio, LLC dissolved on May 17, 2024, and Evergreen LPFN, LLC dissolved on May 17, 2024, as well as LPF Michigan, LLC, Benmore LPFN, CDRS Owner, LLC on June 12, 2024. Additionally, the Company has filed to dissolve and LGCLORDIS 1, LLC.

The Company is targeting completion of other potential divestitures that would occur in 2024, however, no definitive timeline is assured. There can be no assurance any transactions will be pursued by the Company due to its intention to divest any non-core assets. The Company has accounted for any potential divestitures in accordance with IFRS 5 - *Non-Current Assets Held for Sale and Discontinued Operations*. The Company does not intend to comment further with respect to potential divestitures unless and until it determines that additional disclosure is appropriate in accordance with the requirements of applicable securities laws.

#### *Assumptions and Expectations*

The Company’s strategies are based on several primary market assumptions and expectations, including:

- The Company will continue to create efficiencies, reduce costs and improve profits by improving business operations;
- Lean, efficient, and scalable operations will position the Company for additional investment and increases in shareholder value;
- Ongoing cannabis legalization efforts across the U.S. will contribute to the industry’s growth, and the state of California will continue to represent one of the largest single markets in the United States;



- Expansion of the legalized adult-use markets in California and enforcement against the illicit market will continue;
- Legalized adult-use and medical cannabis consumption will continue to increase as branded products become increasingly popular and cannabis use becomes more widely acceptable;
- The cultivation and sale of cannabis flower and trim is likely to become increasingly commoditized;
- Trusted brands and diversified manufactured products offering value propositions to a range of consumer demographics will increase market share; and,
- California will provide an efficient base to service interstate commerce when legalized.

The California cannabis market is challenging with many of the largest multi-state operators choosing to focus on other states. As a California focused operator, the Company sees an opportunity to create one of the largest companies in one of the world's largest cannabis market. By consolidating and increasing its market share in California, the Company aims to position itself as a prime target for acquisition by multi-state operators that may enter the market in the future. With the patchwork of differing laws and inability to ship products across state lines, it has historically been difficult to scale a cannabis business across multiple states. The Company believes that the geographic and economic size of the California cannabis market, combined with the difficulties of operating in multiple states, supports the Company's focus on California.

While the Company has invested significantly to scale its cultivation operations, management believes that unbranded wholesale cannabis flower prices are being negatively impacted by continued competition from the illicit market and commoditization as production capacity increases across California. As such, scale alone will not be sufficient to mitigate this risk. It will be necessary to develop trusted, branded products to increase market share and retain customer loyalty. Improving quality and yields will further protect operating margins as the wholesale price of unbranded flower and trim fluctuates. For this reason, the Company will consider investment opportunities to enhance its branded product offerings.

In addition, the Company recognizes that consumer purchasing habits are gradually trending in favor of manufactured products over flower and expects this trend to continue as new product categories are created and existing manufactured products are improved. Given the trend in favor of manufactured and branded products, the Company intends to prioritize the development of manufactured products under its own brands that are offered for sale through its own retail operations as well as through other retailers in California.

## **Recent Developments**

### *Amendments to Senior Secured Debt and Issuance of Pelorus Warrants*

On July 17, 2023, the Company entered into the ninth omnibus amendment of the loan agreement (the "Ninth Amendment") to further extend the maturity date of the Senior Secured Debt to July 31, 2023. On July 31, 2023, the Company entered into the tenth omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to February 10, 2027 and increase the amount of the Senior Secured Debt by \$7,521,000, bringing the total principal amount of the Senior Secured Debt to \$15,000,000. The Senior Secured Debt bears interest at a rate of one month Secured Overnight Financing Rate ("SOFR"), plus 12.5%, with a SOFR floor of 4.5%. The Senior Secured Debt is subject to certain debt service ratio requirements, interest reserves, cross-corporate guarantees and defaults, subordination agreements and intercreditor agreements, along with a general corporate guaranty from the Company.

As consideration for entering into an Amendment, the Company granted 136,258,279 common share purchase warrants to Pelorus (the "Pelorus Warrants"), amounting to 40% of the Senior Secured Debt. The Pelorus Warrants are exercisable for a period of three years, with an exercise price that is adjusted based on a weighted-average dilution basis. Pelorus is prohibited from exercising the Pelorus Warrants if, upon exercise, Pelorus would beneficially own greater than 9.99% of the outstanding Common Shares of the Company. The Pelorus Warrants cannot be transferred to another party without the consent of the Company, unless the transfer is to an affiliate of Pelorus, or if the Company is in default of the Senior Secured Debt.

The Company holds an option to acquire (the "Call Option") the Pelorus Warrants at a 30% premium to the then current aggregate exercise price for all of the underlying Common Shares. The Company is required to provide Pelorus with a

least 25 days' prior written notice of any prepayment of the Senior Secured Debt. Such prepayment notice shall include notice to Pelorus of whether the Company will elect or not elect to exercise the Call Option. Absent a prepayment in full of the Senior Secured Debt, the Company is required to provide Pelorus with written notice of whether it will elect or not to elect to exercise the Call Option at least 25 days prior to the maturity date of the Senior Secured Debt.

The Company also granted Pelorus an option to sell (the "Put Option") the Pelorus Warrants, for so long as the Pelorus Warrants have not been exercised, to the Company at a 30% discount to the then current exercise price. Pelorus may exercise the Put Option by providing written notice to the Company at least 15 days prior to the prepayment or maturity date of the Senior Secured Debt. If Pelorus fails to exercise the Put Option during such time period, the put option will be deemed void.

On January 31, 2024, the Company entered into the eleventh omnibus agreement of the loan agreement to correct a scrivener's error that erroneously indicated the requirement of a \$1,000,000 pre-payment on February 1, 2024.

#### *Sale of Ownership Interest in UL Visalia*

On August 21, 2023, the Company entered into an agreement to sell the ownership interest in UL Visalia LLC ("UL Visalia"), of which the Company held an 80% ownership interest. UL Visalia holds a Cannabis Retailer License in the State of California and a local authorization to conduct a cannabis business in the unincorporated area of Tulare County, California. The sale of the 80% ownership interest of UL Visalia closed on December 22, 2023 for a total of \$400,000 of which \$15,000 was paid in cash and the remaining consideration of \$385,000 was held in a note receivable by Urbn Leaf (the "Visalia Note Receivable"). The Visalia Note Receivable is to be received in \$5,000 payments each month. As of the year ended December 31, 2023, \$385,000 was outstanding on the Visalia Note Receivable and is held by Urbn Leaf. In July 2019, the Company purchased UL Visalia by entering into a note payable agreement for \$500,000, of which, there was an outstanding balance of \$247,943 (the "Visalia Note Payable") prior to the sale of UL Visalia. As part of the sale of UL Visalia, the outstanding balance of the Visalia Note Payable in the amount of \$247,943 has been written off and is now \$0. All intercompany receivables and payables were alleviated as part of this sale. The Company recorded a gain on the sale of UL Visalia of \$506,505 other income (expense) in the accompanying Consolidated Statements of Loss and Comprehensive Loss for the year ended December 31, 2023.

#### *Sale of Ownership Interest in ULRB LLC*

On October 7, 2023, the Company entered into an agreement to sell its interest in ULRB LLC to an arm's length purchaser for \$500,000.

#### *Asset Sale and Management Services Agreements for Real Estate in Grossmont*

On October 11, 2023, the Company entered into an agreement to sell its minority ownership interest in real estate in Grossmont, California to UL La Mesa, LLC ("UL La Mesa") for \$550,000. The Company simultaneously entered into a management services agreement with UL La Mesa, pursuant to which the Company will continue to operate the location for an initial term of 12 months. The Company will receive a management fee of 100% of the net profits derived from the premises.

#### *Sale of Dispensary in Grossmont*

On October 11, 2023, the Company entered into an agreement to sell its license and operations of its Urbn Leaf-branded retail dispensary located in Grossmont, California for an aggregate purchase price of \$725,000. Pursuant to the terms of the agreement, the buyer has agreed to pay the purchase price in the form of ready-for-sale cannabis flower.

### *Increased Interest In Haight-Ashbury Dispensary*

On November 1, 2023, the Company completed the issuance of Common Shares related to its acquisition of an additional 29.9% interest in FGW, for a total ownership interest of 50.1%. The issuance increased the Company's interest in FGW to 80%.

### *Director Changes*

Effective January 15, 2024, the Company announced that Board Member, J. Roy Pottle resigned from its Board of Directors.

Effective April 15, 2024, Felicia Snyder has been appointed as independent Chair of the Board of Directors of the Company (the "Board") effective April 14th, 2024. Matthew K. Hawkins has stepped down from the Board effective April 12th, 2024.

### *Interest Payments*

The Company has not paid full cash interest payments since February 2024. The Company is currently engaged in negotiating the terms of the Company's debt and ongoing interest obligations.

## **Results of Operations**

### *Revenue*

The Company has the following revenue channels:

- **Retail:** The Company's retail operations include both adult-use and medical cannabis sales. Direct to consumer sales include in-store retail, curbside pick-up and home delivery. As of December 31, 2023, the Company operated 13 retail dispensaries and five direct-to-consumer delivery hubs. Approximately 51.9% and 53.4% of the Company's revenue for the three and twelve months ended December 31, 2023, respectively, was derived from the Company's retail operations.
- **Branded wholesale and manufacturing:** The Company's branded wholesale and manufacturing operations include cannabis processing, extraction, and product manufacturing for its own branded products and for "white label products" for other cannabis companies. Approximately 46.5% and 43.7% of the Company's revenue for the three and twelve months ended December 31, 2023, respectively, was derived from the Company's manufacturing operations.
- **Cultivation:** The Company's cultivation operations include the sale and delivery of cannabis in the wholesale market and cultivation management services. Approximately 1.6% and 2.9% of the Company's revenue for three and twelve months ended December 31, 2023, respectively, was derived from the Company's wholesale operations. The Company believes that a more fully integrated supply chain will result in higher product margins as the Company captures more of the price to consumer as well as lower input and production costs.

For the three and twelve months ended December 31, 2023 and 2022, revenue was comprised of the following:

	<b>For the three months ended</b>		<b>For the twelve months ended</b>	
	<b>December 31, 2023</b>	<b>December 31, 2022 (Restated – Note 34)</b>	<b>December 31, 2023</b>	<b>December 31, 2022 (Restated – Note 34)</b>
<i>\$ in thousands</i>				
Retail, net	\$ 13,011	\$ 16,430	\$ 53,647	\$ 62,981
Branded wholesale and manufacturing revenue, net	11,653	8,610	43,965	40,669
Cultivation revenue, net	393	496	2,930	4,598
Total net revenue	<u>\$ 25,057</u>	<u>\$ 25,536</u>	<u>\$ 100,542</u>	<u>\$ 108,248</u>

Historically, the Company has not experienced significant seasonality in its revenue or other important financial performance metrics. Management expects revenue in the second and third quarters to be generally higher due to increased retail foot traffic throughout the state. The Company benefits from these increases in the retail sales and from the additional wholesale demand from third-party retail customers. Additionally, the Company's cultivation is entirely light assisted greenhouses, which benefit from additional sunlight during the second and third quarter of the calendar year resulting in additional yields. These are consumed internally to the greatest extent possible, and remaining biomass is sold into the bulk wholesale market.

### *Gross Profit*

Gross profit is calculated as revenue less cost of goods sold ("COGS"). COGS includes the direct costs attributable to the cultivation, production, manufacturing and purchase of products sold. These costs include the direct cost of labor, seeds, growing material, raw materials and packaging, as well as other indirect costs such as utilities and supplies used in the growing process, post-harvest costs, indirect labor for individuals involved in growing, quality control, regulatory testing, and inventory processes as well as certain costs related to its facilities. Additionally, certain other operating expenses, such as inventory management systems, uniforms, information technology and license renewal fees, are also allocated to COGS.

In addition to market fluctuations, cannabis costs are affected by various state regulations that add cost and complexity to the sourcing and procurement of cannabis products. Changes in regulatory environments may create fluctuations in gross profit over comparative periods. Additionally, biological assets consist of plants in various stages of growth prior to harvest and are measured at fair value less costs to sell ("FVLCS"). Changes in assumptions used to measure biological assets at FVLCS may create fluctuations in gross profit over comparative periods.

For the three and twelve months ended December 31, 2023 and 2022, gross profit and gross margin by revenue channel were as follows:

	<b>For the Three Months Ended</b>		<b>For the twelve months ended</b>	
	<b>December 31, 2023</b>	<b>December 31, 2022 (Restated – Note 34)</b>	<b>December 31, 2023</b>	<b>December 31, 2022 (Restated – Note 34)</b>
<i>\$ in thousands</i>				
Retail revenue, net	\$ 13,011	\$ 16,430	\$ 53,647	\$ 62,981
Branded wholesale and manufacturing revenue, net	11,653	8,610	43,965	40,669
Cultivation revenue, net	393	496	2,930	4,598
Gross profit before biological asset adjustments	<u>\$ 10,431</u>	<u>\$ 10,824</u>	<u>\$ 45,122</u>	<u>\$ 42,135</u>
<i>Consolidated operations</i>				
Net revenue	\$ 25,057	\$ 25,536	\$ 100,542	\$ 108,248
Cost of goods sold	14,626	14,712	55,420	69,113
Gross profit before biological asset adjustments	<u>\$ 10,431</u>	<u>\$ 10,824</u>	<u>\$ 45,122</u>	<u>\$ 39,135</u>
<i>Gross margin</i>	41.6%	42.4%	44.9%	36.2%

On average, the Company realized an average gross margin for retail, branded wholesale and manufacturing, and cultivation revenues of 63%, 28%, and 42%, respectively. Sales price may fluctuate based on product demand and competition in the market. Inventories of harvested cannabis are transferred from biological assets to inventories at their fair value at harvest less cost to sell, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventories to the extent that their cost is less than NRV. Packaging and supplies are initially valued at cost. All direct and indirect costs related to inventories are capitalized as they are incurred and expensed when the related item is sold. During the twelve months ended December 31, 2023 and 2022, inventory expensed to cost of goods sold was approximately \$47,292,000 and \$48,917,000, respectively.

### *Operating Expenses*

Operating expenses primarily include general and administrative expenses (as described below), professional fees, M&A and transaction expenses, share-based compensation, allowance for expected credit losses, write-downs (recovery) of receivables and investments and advances, and depreciation and amortization.

For the three and twelve months ended December 31, 2023 and 2022, operating expenses were comprised of the following:

<i>\$ in thousands</i>	For the Three Months Ended		For the twelve months ended	
	December 31, 2023	December 31, 2022 (Restated – Note 34)	December 31, 2023	December 31, 2022 (Restated – Note 34)
General and administrative	\$ 9,315	\$ 10,659	41,136	\$ 48,085
Professional fees	1,361	3,135	7,063	9,241
M&A and transaction expenses	-	-	-	8,698
Share-based compensation	505	901	2,456	4,842
Allowance for expected credit balances	1,576	1,622	2,826	2,829
Depreciation and amortization	(448)	3,419	4,983	7,020
Total operating expenses	<u>\$ 12,309</u>	<u>\$ 19,736</u>	<u>\$ 58,464</u>	<u>\$ 80,715</u>

#### *General and Administrative Expenses (“G&A”)*

G&A expenses consist mainly of salary and benefits, taxes and licenses, sales and marketing, banking and processing fees, advertising and promotion, travel and entertainment and office and general expenses including technology, insurance and rent and facility expenses.

As a percentage of sales, management expects G&A costs to decrease as optimization efforts continue. Management expects to achieve further synergies, increase operational efficiencies and improve margins as it fully integrates recent investments in technology, automation equipment and other capital equipment.

For the three and twelve months ended December 31, 2023 and 2022, G&A was comprised of the following:

<i>\$ in thousands</i>	For the three months ended		For the twelve months ended	
	December 31, 2023	December 31, 2022 (Restated – Note 34)	December 31, 2023	December 31, 2022 (Restated – Note 34)
Advertising and promotion	\$ 205	\$ 571	\$ 1,035	\$ 1,492
Banking and processing fees	217	1,259	941	2,504
Other general administrative	(351)	48	(212)	162
Office and general expenses	2,293	1,078	10,824	13,181
Salaries and benefits	4,722	6,701	20,893	25,366
Sales and marketing	55	61	254	1,142
Taxes and licenses	671	833	2,491	3,532
Third party distribution costs	1,422	-	4,609	-
Travel and entertainment	82	108	302	706
Total	<u>\$ 9,316</u>	<u>\$ 10,659</u>	<u>\$ 41,137</u>	<u>\$ 48,085</u>

#### *Non-Cash Impairment*

The Company is required to assess its goodwill and long-lived assets, including property, plant and equipment and intangible assets for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. During the three and twelve months ended December 31, 2023 and 2022, it was determined that all intangible assets are fully impaired. See Note 10, *Intangible Assets and Goodwill*, in the 2023 Consolidated Financial Statements for the Company’s disclosures on impairment.

#### *Other Income (Expense)*

Other income (expense) consists mainly of recurring expenses such as interest income (expense), other income and gains (losses) on derivative instruments, foreign currency, and derivative liabilities on warrants. Also included are expenses such as gains (losses) on extinguishment of debt and provisions, and loss on sale of business.

For the three and twelve months ended December 31, 2023 and 2022, other income (expense) consisted of the following:

<i>\$ in thousands</i>	For the three months ended		For the twelve months ended	
	December 31, 2023	December 31, 2022 (Restated – Note 34)	December 31, 2023	December 31, 2022 (Restated – Note 34)
Interest income (expense), net	\$ (5,737)	\$ (3,193)	\$ (18,836)	\$ (14,354)
Other income (expense), net	2,945	(762)	11,063	(3,265)
Provisions	-	-	-	16,101
Gain (loss) on sale of business	(183)	(11)	254	(7,168)
Fair value (loss) gain in other current assets and derivative liabilities	(2,092)	(7)	(1,723)	1,711
Gain (loss) on debt extinguishment	231	-	-	(66)
Foreign exchange gain (loss)	3,146	(434)	1,704	(1,461)
Total other income (expense), net	<u>\$ (1,690)</u>	<u>\$ (4,407)</u>	<u>\$ (7,538)</u>	<u>\$ (8,502)</u>

### Income Taxes

The Company is treated as a United States corporation for United States federal income tax purposes under §7874 of the U.S. Tax Code ("IRC §7874") and is subject to the United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of §7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada)) for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the United States. Notwithstanding the foregoing, management expects that the Company's activities will be conducted in such a manner that income from operations will not be subject to double taxation. As the Company operates in the cannabis industry, the Company is subject to the limits of IRC §280E under which the Company is only allowed to deduct expenses directly related to the sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC §280E and a higher effective tax rate than other industries.

### Selected Financial Information

#### Selected Financial Results

The following table, which presents the Company's quarterly results of operations, should be read in conjunction with the 2023 Consolidated Financial Statements and related notes thereto. Operating results for any quarter are not necessarily indicative of results for any future quarters, or for a full year. Selected financial information for the eight most recently completed quarters as at December 31, 2023, are as follows which are all presented under IFRS:

<i>\$ in thousands, except share amounts</i>	2023				2022 (Restated – Note 34)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net revenue	\$ 25,058	\$ 25,486	\$ 25,340	\$ 24,658	\$ 25,535	\$ 30,847	\$ 34,598	\$ 17,267
Cost of goods sold	14,626	14,050	13,013	13,731	17,711	19,782	19,861	11,758
Gross profit before FVLCS	10,432	11,436	12,327	10,927	7,824	11,065	14,737	5,509
Gross profit	10,450	11,256	12,644	10,971	7,489	9,468	16,121	6,476
Expenses	12,309	14,809	14,571	16,775	16,735	21,037	28,904	14,038
Impairment loss	16,541	-	-	-	204,853	-	-	-
Operating income (loss)	(18,400)	(3,554)	(1,925)	(5,803)	(214,099)	(11,569)	(12,783)	(7,562)
Other income (expense)	(1,692)	(4,625)	9	(1,231)	(4,407)	(6,069)	3,635	(1,661)
Income tax benefit (expense)	514	(8,865)	(595)	(3,846)	19,632	(2,823)	(4,352)	(1,338)
Non-controlling interests	730	(201)	(385)	(277)	(13)	(332)	(75)	(149)
Net income (loss) attributable to StateHouse Holdings Inc.	(20,308)	(16,842)	(2,127)	(10,603)	(198,861)	(20,129)	(13,425)	(10,412)
Net income (loss) per share - basic	(0.08)	(0.07)	(0.01)	(0.05)	(0.93)	(0.08)	(0.05)	(0.10)
Net income (loss) per share - diluted	(0.08)	(0.07)	(0.01)	(0.05)	(0.93)	(0.08)	(0.05)	(0.10)

**Financial Information for the Three and Twelve Months Ended December 31, 2023, and 2022:**

The following tables set forth selected consolidated financial information for the periods indicated, and should be read in conjunction with, the 2023 Consolidated Financial Statements and related notes included thereto.

The selected consolidated financial information set out below may not be indicative of the Company's future performance:

	For the three months ended		For the twelve months ended	
	December 31, 2023	December 31, 2022 (Restated – Note 34)	December 31, 2023	December 31, 2022 (Restated – Note 34)
<i>\$ in thousands</i>				
Net revenue	25,058	25,535	100,542	108,248
Cost of goods sold	14,626	17,711	55,420	69,113
Gross profit before biological asset adjustments	10,432	7,824	45,122	39,135
Gross margin	41.6%	30.6%	44.9%	36.2%
FVLCS of biological asset transformation	1,111	2,661	1,619	7,753
Realized fair value amounts included in inventory	(1,130)	(2,326)	(1,820)	(8,171)
Gross profit	10,450	7,489	45,323	39,554
Gross margin	42%	29%	45%	37%
Total expenses	12,309	16,735	58,464	80,714
Total other income (expense), net	(1,692)	(4,407)	(7,539)	(8,502)
Income tax benefit (expense)	514	19,632	(12,792)	11,118
Non-controlling interest	730	(13)	(133)	(569)
Net income (loss) attributable to Statehouse Holdings Inc.	<u>\$ (20,308)</u>	<u>\$ (198,861)</u>	<u>\$ (49,880)</u>	<u>\$ (242,828)</u>

The Company has been focused on optimizing its operations, leveraging assets acquired through acquisitions and realizing synergies from expanding the size of its overall business and integrating its operations to achieve profitability. The results of operations for the three and twelve months ended December 31, 2023, include the operations of Urbn Leaf (acquired March 1, 2022) and Loudpack (acquired April 4, 2022), as such, the results of operations are not necessarily comparable between those periods.

*Revenue*

During the three months ended December 31, 2023, the Company generated total net revenue of \$25.1 million compared to \$25.5 million for the three months ended December 31, 2022. Retail, branded wholesale and manufacturing, and cultivation revenue for the three months ended December 31, 2023, totaled \$13.0 million, \$11.7 million, and \$0.4 million, respectively, compared to retail, branded wholesale and manufacturing, and cultivation revenue for the three months ended December 31, 2022, of \$16.4 million, \$8.6 million, and \$0.5 million, respectively.

The decrease in retail revenue of \$3.4 million, representing an approximate 20.8% reduction, was primarily attributable the closure or sale of two retail locations, as well as a market-wide reduction in retail foot traffic, increased competition, and price compression.

The increase in branded wholesale and manufacturing revenue of \$3.0 million, representing an approximate 35.3% increase, was primarily attributable to increased market share.

The Company's cultivation revenue decreased \$0.1 million for the three months ended December 31, 2023, compared to the three months ended December 31, 2022. The Company utilized a greater percentage of cannabis flower produced at the Salinas Production Campus for the Company's branded products rather than selling bulk cannabis flower directly to the wholesale market. For the three months ended December 31, 2023, more than 95% of the cannabis flower and trim produced at the Company's Salinas Production Campus was used for the Company's products, compared to approximately 95% for the three months ended December 31, 2022. The Company expects to improve gross profits by monitoring California cannabis bulk pricing to determine the optimal mix of internal utilization and external sale of its self-produced cannabis flower and trim in its branded products.

During the twelve months ended December 31, 2023, the Company generated total net revenue of \$100.5 million compared to \$108.2 million for the twelve months ended December 31, 2022. Retail, branded wholesale and manufacturing, and cultivation for the twelve months ended December 31, 2023, totaled \$53.6 million, \$44.0 million, and \$2.9 million, respectively, compared to retail, branded wholesale and manufacturing, and cultivation revenue for the twelve months ended December 31, 2022, of \$63.0 million, \$40.7 million and \$4.6 million, respectively.

The decrease in retail revenue of \$9.3 million, representing an approximate 14.8% reduction, was primarily attributable to the closure of two stores, a market-wide reduction in retail foot traffic, increased competition, and price compression.

The increase in branded wholesale and manufacturing revenue of \$3.3 million, representing growth of approximately 8.1%, was primarily attributable to the Loudpack Acquisition in April 2022. Accordingly, results of operations are not necessarily comparable on a period over period basis.

The Company's cultivation revenue decreased \$1.7 million for the twelve months ended December 31, 2023, compared to the twelve months ended December 31, 2022. The Company utilized a greater percentage of cannabis flower produced at the Salinas Production Campus for the Company's branded products rather than selling bulk cannabis flower directly to the wholesale market. For the twelve months ended December 31, 2023, approximately 96% of the cannabis flower and trim produced at the Company's Salinas Production Campus was used for the Company's products, compared to approximately 92% for the twelve months ended December 31, 2022.

#### *COGS and Gross Profit*

During the three months ended December 31, 2023, COGS for the retail, branded wholesale and manufacturing, and cultivation operations totaled \$3.2 million, \$9.3 million, and \$2.1 million, respectively, compared to COGS of \$8.2 million, \$4.8 million, and \$1.7 million, respectively, for the three months ended December 31, 2022. Consolidated gross profit before biological asset adjustments for the three months ended December 31, 2023 and 2022, were \$10.4 million and \$7.8 million, respectively, for a gross margin of 41.6% and 30.6%, respectively. Quarter over quarter combined gross margins increased primarily due to the demand for the Company's high-quality cannabis products, better utilization of raw materials due to vertical integration, and improved operational efficiencies.

During the twelve months ended December 31, 2023, COGS for the retail, branded wholesale and manufacturing, and cultivation operations totaled \$19.9 million, \$31.5 million, and \$4.1 million, respectively, compared to COGS of \$28.2 million, \$27.2 million and \$13.7 million, respectively, for the twelve months ended December 31, 2022. Consolidated gross profit before biological asset adjustments for the twelve months ended December 31, 2023 and 2022, were \$45.1 million and \$39.1 million, respectively, for a gross margin of 44.9% and 36.2%, respectively. Period over period combined gross margins increased primarily due to the demand for the Company's cannabis products and better utilization of Company raw material through vertical integration.

During the twelve months ended December 31, 2023, the Company repurposed one of its underperforming greenhouses for research and development of new genetics and increased light sources in its' other greenhouses. In addition, the Company moved the process of trimming from the Salinas Production Campus to the Greenfield Production Campus. These changes resulted in lower wholesale operating costs while increasing manufacturing operating costs. Overall, these changes are expected to result in increases in yields and efficiency.

#### *Total Operating Expenses*

During the three months ended December 31, 2023 and 2022, the Company incurred total operating expenses of \$12.3 million and \$19.7 million, respectively, a decrease of \$7.4 million. The decrease in total operating expenses was primarily related to:

- A decrease in professional fees of \$ 1.8 million and a decrease in share based compensation of \$0.4 million.

During the twelve months ended December 31, 2023 and 2022, the Company incurred total operating expenses of \$58.5 million and \$80.7 million, respectively, resulting in a decrease of \$22.3 million. The decrease in total operating expenses was primarily related to the following items:

- A decrease in M&A expenses of \$8.7 million, as the Company hasn't incurred any significant M&A cost during the twelve months ended December 31, 2023, compared to \$8.70 million in the twelve months ended December 31, 2022, which were incurred in relation to the Urbn Leaf Acquisition and the Loudpack Acquisition.
- A decrease in general and administrative expenses of \$6.9 million, to \$41.1 million in the twelve months ended December 31, 2023, compared to \$48.1 million in the twelve months ended December 31, 2022. The decrease



was primarily due to a decrease in salaries and benefits of \$4.5 million to \$20.89 million in the twelve months ended December 31, 2023, compared to \$25.37 million in the twelve months ended December 31, 2022.

- \$2.4 million decrease in office and general expenses. Office and general expenses consist primarily of utilities, outside security, information technology, insurance and office supplies.
- The decrease in total operating expenses for the twelve months ended December 31, 2023, was offset by a \$4.61 million increase in third party distribution costs related to the outsourced distribution of manufactured products.
- The Company continues to implement cost savings initiatives including reduced spending across all business lines, elimination of redundant services and subscriptions and re-negotiating contracts with vendors.

#### *Operating Income (Loss)*

As the Company continues to operate its business, it is incurring losses. Operating loss for the three and twelve months ended December 31, 2023, totaled \$18.4 million and \$29.7 million, respectively. Operating loss for the three and twelve months ended December 31, 2022, totaled \$214.1 million and \$246.0 million, respectively. The Company is focused on optimizing its operations, leveraging its assets and realizing synergies from expanding the size of its overall business. In addition, the Company continues to identify and launch additional growth efforts which are expected to improve profitability.

#### *Total Other Income (Expense)*

For the twelve months ended December 31, 2023, other expense was \$7.5 million, comprised primarily of interest expense of \$18.8 million, offset by other income of \$11.1 million. The other income account is made up of income streams such as property rental income, management fees, and income from discontinued operations.

For the twelve months ended December 31, 2022, other expense was \$8.5 million comprised primarily \$14.4 million interest expense and \$7.2 million loss on the sale of business, offset by a \$16.1 million gain from the decrease in the provision for the uncertain tax position under IRC §280E for Patients Mutual Assistance Collective Corporate (PMAAC).

#### *Provision for Income Taxes*

During the three months ended December 31, 2023, the Company recorded income tax expense of \$0.5 million. During the three months ended December 31, 2022, the Company recorded a benefit for income taxes of \$19.6 million. The change was a result of the Company's change in gross profits and reflects the expected burden of the permanent tax differences imposed on the Company by IRC §280E.

During twelve months ended December 31, 2023, the Company recorded income tax expense of \$12.8 million. The Company recorded a provision for income taxes of \$20.2 million during this period. During the twelve months ended December 31, 2022, the Company recorded income tax benefit of \$11.1 million and a provision for income taxes of \$21.2 million.

#### *Net income (loss) attributable to StateHouse Holdings Inc. ("net income" or "net loss")*

Overall, the net loss for the three and twelve months ended December 31, 2023, was \$19.6 million, (net loss of \$0.08 per share), and \$50.0 million, (net loss of \$0.20 per share), respectively, compared to a net loss for the three and twelve months ended December 31, 2022, of \$198.9 million, (net loss of \$0.92 per share) and \$243.4 million, (net loss of \$1.14 per share), respectively. Net loss attributable to the Company for the three and twelve months ended December 31, 2023, totaled \$19.6 million and \$50.0 million, respectively.

#### **Reconciliation of Non-IFRS Measures**

The following information provides reconciliations of the supplemental non-IFRS financial measures, compared to the most directly comparable financial measures calculated and presented in accordance with IFRS. The Company has provided the non-IFRS financial measures, which are not calculated or presented in accordance with IFRS, as supplemental information.

These supplemental non-IFRS financial measures are presented since management has evaluated the financial results of the Company, both including and excluding adjusted items, and believes that the supplemental non-IFRS financial measures presented provide additional perspective and insight when analyzing operating performance. These supplemental non-IFRS measures should not be considered superior to, a substitute for, or as an alternative to and should be read in conjunction with the IFRS financial measures presented.

#### *Adjusted Gross Profit & Adjusted Gross Margin*

Adjusted Gross Profit and Adjusted Gross Margin exclude the fair value adjustments of biological assets.

	<b>For the three months ended</b>		<b>For the twelve months ended</b>	
	<b>December 31, 2023</b>	<b>December 31, 2022 (Restated – Note 34)</b>	<b>December 31, 2023</b>	<b>December 31, 2022 (Restated – Note 34)</b>
<i>\$ in thousands</i>				
<b>Net Revenue</b>	\$ 25,058	\$ 25,535	\$ 100,542	\$ 108,248
Gross Profit	10,450	7,489	45,323	39,554
Adjusted for:				
Net effect of change in fair value less cost to sell of biological asset transformation	(18)	335	(200)	(419)
Adjusted Gross Profit	\$ 10,432	\$ 7,824	\$ 45,122	\$ 39,135
Adjusted Gross Margin	41.6%	30.6%	44.9%	36.2%

After adjusting for the net effect of the change in fair value less cost to sell of biological asset transformation, the Adjusted Gross Profit for the three and twelve months ended December 31, 2023 was \$10.4 million and \$45.1 million, respectively. The Adjusted Gross Margin for the three and twelve months ended December 31, 2023 was 41.6% and 44.9%, respectively. Adjusted Gross Profit for the three and twelve months ended December 31, 2022, was \$7.8 million and \$39.1 million, respectively. The Adjusted Gross Margin for the three and twelve months ended December 31, 2022, was 30.6% and 36.2%, respectively.

#### *Adjusted EBITDA & Adjusted EBITDA Margin*

“Adjusted EBITDA” is a metric used by management which is net income (loss) adjusted for interest, provisions for income taxes, other non-cash items including depreciation and amortization, share-based compensation, the non-cash effects of accounting changes in biological assets, derivative liabilities, and other extraordinary and non-recurring items. “Adjusted EBITDA Margin” is Adjusted EBITDA as a percentage of reported net revenue.

As reflected in the following table, after adjusting for depreciation and amortization, interest, provisions for income taxes, other non-cash and extraordinary non-recurring items, share-based compensation, the non-cash effects of accounting changes in biological asset adjustments and derivative liabilities, Adjusted EBITDA for the three and twelve months ended December 31, 2023, was \$(1.0) million and \$5.57 million, respectively. During the three and twelve months ended December 31, 2023, the Adjusted EBITDA Margin was (4.1%) and 5.54%, respectively. Adjusted EBITDA for the three and twelve months ended December 31, 2022, was \$(6.2) million and \$(20.0) million, respectively. During the three and twelve months ended December 31, 2022, the Adjusted EBITDA Margin was (24.2%) and (18.5%), respectively.

	For the three months ended		For the twelve months ended	
	December 31, 2023	December 31, 2022 (Restated – Note 34)	December 31, 2023	December 31, 2022 (Restated – Note 34)
<i>\$ in thousands</i>				
<b>Net income (loss) attributable to StateHouse Holdings Inc</b>	(20,308)	\$ (198,862)	\$ (49,880)	:(242,828)
Adjusted for:				
Biological assets adjustments	(18)	336	(200)	(419)
Share-based compensation	505	901	2,456	4,842
Impairment Loss	16,541	204,853	16,541	204,853
Depreciation and amortization	(448)	420	4,983	7,020
Depreciation included in COGS	1,675	444	2,000	1,985
Interest expense	5,737	3,193	18,836	14,354
Fair value change in other assets and derivative liabilities	1,354	7	1,723	(1,711)
Foreign exchange (gain) loss	(3,146)	434	(1,704)	1,462
Provision	-	0	-	(16,102)
Loss on sale of business	(691)	11	(254)	7,168
Gain on assignment of non-controlling interests	(1,723)	1,711	(1,723)	1,711
Non-recurring expenses	-	-	-	75
Non-recurring expenses - M&A and transaction expenses	-	-	-	8,698
Income tax expense	(514)	(19,631)	12,792	(11,118)
Adjusted EBITDA	\$ (1,037)	\$ (6,183)	\$ 5,569	:(20,010)
Adjusted EBITDA Margin	-4.1%	-24.2%	5.5%	-18.5%

## Summary of Significant Accounting Policies

See Note 2, *Summary of Significant Accounting Policies* in the 2023 Consolidated Financial Statements for the Company’s disclosures on the significant accounting policies. The significant accounting policies applied in the preparation of the 2023 Consolidated Financial Statements have been applied consistently to all periods presented in the 2023 Consolidated Financial Statements.

## Adoption of Accounting Policies

The Company adopted the following standards effective January 1, 2023. These changes were made in accordance with the applicable transitional provisions noted below.

### *Amendments to IAS 1 - Presentation of Financial Statements and IFRS Practice Statement 2 - Making Materiality Judgments*

In February 2021, the IASB issued amendments to International Accounting Standards (“IAS”) 1 - *Presentation of Financial Statements* (“IAS 1”), and IFRS Practice Statement 2 - *Making Materiality Judgments* (“IFRS Practice Statement 2”). These amendments help entities provide accounting policy disclosure that is more useful to primary users of financial statements by:

Replacing the requirement to disclose “significant” accounting policies under IAS 1 with a requirement to disclose “material” accounting policies. Under IAS 1, an accounting policy would be material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general-purpose financial statements would make on the basis of those financial statements.

Providing guidance in IFRS Practice Statement 2 to explain and demonstrate the application of the four-step materiality process to accounting policy disclosure.

The amendments were applied prospectively. The amendments to IAS 1 were effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The adoption of the standard did not have a material impact on the Company’s 2023 Consolidated Financial Statements.

### *Amendments to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors*

In February 2021, the IASB issued amendments to IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments introduce a new definition of “accounting estimates” to replace the definition of “change in accounting estimates” and also include clarifications intended to help entities distinguish changes in accounting policies

from changes in accounting estimates. The amendments were effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The adoption of the standard did not have a material impact on the Company's 2023 Consolidated Financial Statements.

#### *Amendments to IAS 12 Income Taxes*

In May 2021, the IASB issued amendments to the recognition exemptions under IAS 12 - *Income Taxes*. These amendments narrowed the scope of the recognition exemption to require an entity to recognize deferred tax on the initial recognition of particular transactions, to the extent the transaction gives rise to equal amounts of deferred tax assets and liabilities. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities. The amendments were effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The adoption of the standard did not have a material impact on the Company's 2023 Consolidated Financial Statements.

#### **New, Amended, and Future IFRS Pronouncements**

The Company has implemented all applicable IFRS standards recently issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded in this MD&A.

The Company is currently assessing the impact that adopting the new standards or amendments will have on its 2023 Consolidated Financial Statements.

No material impact is expected upon the adoption of the following new standards issued but not yet effective.

#### *Amendments to IAS 1 - Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued amendments to IAS 1 - *Classification of Liabilities as Current or Non-current*. These amendments clarify the requirements relating to determining if a liability should be presented as current or non-current in the consolidated statement of financial position. Pursuant to the new requirements, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. These amendments are effective for annual periods beginning on or after January 1, 2024, with early application permitted.

#### *IFRS 16 - Lease Liability in a Sale and Leaseback*

The IASB has issued narrow-scope amendments to the requirements for sale and leaseback transactions in IFRS 16 explaining how a seller-lessee accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or a rate are most likely to be impacted. These amendments are effective for annual periods beginning on or after January 1, 2024, with early application permitted. Because the Company does not currently utilize any sale and leaseback transactions, this amendment is not expected to have a material impact on the financial reports of the Company.

#### *IAS 7 and IFRS 7 - Supplier Finance Arrangements*

On May 25, 2023, the IASB issued the amendments to IAS 7 and IFRS 7, which requires disclosures of supplier finance arrangements and their impact to a company's liquidity risk. The amendment requires a company to disclose: the terms and conditions; the amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities sit on the balance sheet; ranges of payment due dates; and liquidity risk information. These amendments are effective for annual periods beginning on or after January 1, 2024, with early application permitted. Because the Company does not currently utilize any supplier finance arrangements, this amendment is not expected to have a material impact on the financial reports of the Company.

### *IAS 21- Lack of Exchangeability*

The amendments to IAS 21 clarify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking, as well as require the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable. These amendments are effective for annual periods beginning on or after January 1, 2025, with early application permitted.

Because the Company only operates in the United States and Canada, between which the exchange of currency is well-established, this amendment is not expected to have a material impact on the financial reports of the Company.

### *IAS 18 - Presentation and Disclosure of Financial Statements*

In April 2024, the IASB issued the new standard IFRS 18 - Presentation and Disclosure of Financial Statements. This standard aims to bring more transparency and comparability to the financial performance of companies, enabling investors to make better investment decisions.

IFRS 18 introduces three sets of new requirements; improved comparability of the profit or loss statement (statement of income), improved transparency of management-defined performance measures, and more useful grouping of information in financial statements.

IFRS 18 will replace IAS 1 - Presentation of Financial Statements.

This standard becomes effective for years beginning on or after January 1, 2027, and companies may apply it earlier subject to authorization by relevant regulators. The Company is assessing the impacts to ensure that all information complies with the standard.

### **Critical Accounting Estimates and Judgments**

The preparation of the Company's 2023 Consolidated Financial Statements in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised in any future periods affected. Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the 2023 Consolidated Financial Statements are described below.

#### *Fair value of biological assets and valuation of inventories*

Determination of the fair value of biological assets and inventories requires management to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle of such biological assets.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventories and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventories.

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

- estimating the stage of growth of cannabis up to the point of harvest;
- pre-harvest and post-harvest costs;
- expected selling prices;
- expected yields for cannabis plants to be harvested, by strain of plant; and,
- wastage of cannabis plants at various stages.

The valuation of work in process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for inventories. The Company must also determine if the cost of any inventories exceeds its net realizable value ("NRV"), such as cases where prices have decreased, or inventories have spoiled or otherwise been

damaged. The Company estimates the NRV of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

#### *Provision for expected credit losses ("ECL")*

Determining a provision for ECLs for accounts receivable held at amortized cost requires management to make assumptions about the historical patterns for the probability of default, timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest. The balance for allowance for expected credit losses can fluctuate due to changes in the underlying asset balances, as well as the loss rates the Company applies to those balances due to changes in the factors described above.

#### *Estimated useful lives of depreciation and amortization of property, plant and equipment and intangible assets*

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

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

#### *Impairment of long-lived assets*

Long-lived assets, including property, plant and equipment and intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit ("CGU") is the greater of its fair value less costs to sell or its value in use. If the carrying amount of an asset or a CGU exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss for the amount by which the carrying amount of the asset exceeds the recoverable amount. Significant judgment is present within the valuation models including the projected future cash flows, the selection of a market based discount rate, and the selection of guideline public companies and related valuation multiples.

In the current year, the Company reassessed its CGUs to one CGU, which is the same as the Company's operating segment.

#### *Incremental borrowing rate for leases under IFRS 16 - Leases*

IFRS 16 - *Leases* requires lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. As information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is generally not available, the Company uses its incremental borrowing rate when initially recording real estate leases. The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, in a similar economic environment over a similar term.

#### *Leases*

Each capitalized lease is evaluated to determine if the Company would exercise any of the renewal options offered. Several material factors are considered in determining if the renewal option would be exercised, such as length of the renewal, renewal rate, and ability to transfer locations.

### *Share-based payment arrangements*

The Company measures the cost of equity-settled transactions with officers and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair values for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield and forfeiture rate. Similar calculations are made to value warrants. Such judgments and assumptions are inherently uncertain and changes in these assumptions will affect the fair value estimates.

### *Compound financial instruments*

The conversion feature and the warrants component of convertible debentures and convertible notes payable, and warrants denominated and exercisable in a foreign currency, are accounted for as derivative liabilities as their fair value is affected by changes in the fair value of the Common Shares and in response to the changes in foreign exchange rates. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The conversion feature and warrant component of the convertible debentures and convertible notes payable, and warrants denominated and exercisable in a currency in other than the Company's functional currency, are required to be measured at fair value at each reporting period.

The valuation techniques used to determine fair value require inputs that involve assumptions and judgments such as estimating the future volatility of the stock price, expected dividend yield, and expected life. Such judgments and assumptions are inherently uncertain.

### *Income taxes*

Income taxes and tax exposures recognized in the 2023 Consolidated Financial Statements reflect management's best estimate of the outcome based on facts known at the reporting date. The Company recognizes a liability when, based on its estimates, it anticipates a future income tax payment. A difference between an expected amount and the final tax outcome has an impact on current and deferred taxes in the period when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

### *Provisions*

The Company recognizes provisions if there is a present obligation (legal or constructive) that has arisen as a result of a past event, it is probable that the Company will be required to settle the obligation and the obligation can be reliably estimated. The Company's provision as at September 30, 2023 and December 31, 2022 relates to uncertain tax positions under IRC §280E for PMACC and San Jose Wellness Solutions Corp. ("SJW"), permanent and temporary differences on the Company's federal income tax returns and underpayments on federal income tax liabilities.

Many of the central issues relating to the interpretations of IRC §280E remain unsettled, and there are critical accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E). The Company evaluated these uncertain tax treatments, using a probability weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 – *Uncertainty over Income Tax Treatments* ("IFRIC 23") and, although the Company strongly disagrees with the positions taken by the IRS and the findings of the U.S. Tax Court, it has determined that a reserve for uncertain tax position should be recorded for all years which are subject to statutory review and which do not have negotiated payment arrangements in place with the IRS. On July 28, 2022, the Company entered into a partial payment and installment agreement with the IRS (the "IRS Agreement") in relation to a portion of the uncertain tax positions for PMACC (See Note 18, *Provisions*, in the 2023 Consolidated Financial Statements for the

Company's disclosures on the IRS Agreement). The amount recognized as a provision reflects the Company's obligations due under the IRS Agreement and management's best estimate of the consideration required to settle the remaining uncertain tax positions at the reporting date, considering the risks and uncertainties surrounding the obligation.

#### *Going concern*

At the end of each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends and are consistent with those used to evaluate impairment of goodwill and intangible assets as at December 31, 2023.

As indicated in Note 18 of the 2023 Consolidated Financial Statements, the Company has recognized a provision for uncertain tax positions which are related to PMACC and SJW. The Company has entered into the IRS Agreement for a portion of the uncertain tax position related to PMACC. The Company will be resolving the portion of uncertain tax position subject to the IRS Agreement through monthly installment payments of \$50,000 which began on August 1, 2022.

Outside of the Company's IRS Agreement for PMACC, the timing of additional payments arising from these or any future uncertain tax positions is expected to exceed twelve months from the date the 2023 Consolidated Financial Statements were authorized to be issued. The final amount to be paid for all uncertain tax positions is uncertain.

Management continues to monitor the Company's operational performance, progress on tax litigation and appeals process, and its ability to service its debt.

### **Working Capital and Liquidity Outlook**

#### **Overview**

The Company's primary need for liquidity is to fund the working capital requirements of its business, capital expenditures, debt service and for general corporate purposes. Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted into cash within one year. The Company's primary source of liquidity is funds generated by operating activities. The Company also relies on private and/or public financing as a source of liquidity for working capital and general corporate purposes. The Company's ability to fund operations, to make planned capital expenditures, to make scheduled debt payments and to repay or refinance indebtedness depends on its future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond management's control.

As at December 31, 2023, the Company had total current assets of approximately \$29.2 million, including cash of approximately \$2.4 million, to settle current liabilities of approximately \$132.5 million, for a net working capital deficit of approximately \$103.3 million. As at December 31, 2022, the Company had current assets of approximately \$29.8 million, including cash and restricted cash of approximately \$2.8 million, to settle current liabilities of approximately \$124.3 million, for a net working capital deficit of approximately \$94.5 million. The Company had losses of approximately \$19.6 million and \$50.0 million for the three and twelve months ended December 31, 2023, respectively. The Company had losses of approximately \$198.9 million and \$243.4 million for the three and twelve months ended December 31, 2022, respectively. The Company had cash flows used in operating activities for the twelve months ended December 31, 2023, of approximately \$5.3 million.

Management anticipates that the Company will continue to incur losses until such time as revenues exceed operating costs and the Company is able to complete its restructuring plans, as further described below. These factors create material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's plan to ensure operational continuity includes the implementation of its cost savings plan, and various strategic actions, including (i) discussing terms of its debt agreements with the Company's lenders, (ii) the divestiture of non-core assets including but not limited to the current assets held for sale, and (iii) its ongoing revenue strategies to increase market share and retail, manufacturing and wholesale revenue. On January 31, 2024, the Company entered into



the eleventh omnibus agreement of its loan agreement to correct a scrivener's error that erroneously indicated the requirement of a \$1,000,000 pre-payment on February 1, 2024. On August 1, 2023, the Company entered into an agreement with Pelorus to extend the repayment date of the Senior Secured Debt to February 10, 2027 and increase the amount of the Senior Secured Debt, providing an incremental amount of approximately \$7,521,000, bringing the total principal amount of the Senior Secured Debt to \$15,000,000. The Senior Secured Debt bears interest at a rate of one month Secured Overnight Financing Rate ("SOFR"), plus 12.5%, with a SOFR floor of 4.5%. The Company's annual operating plan for fiscal year 2024 estimates that the Company will be able to sustain current operations. However, the Company's cash needs are significant and not achievable with current cash flow. Additionally, management expects to continue to manage the Company's operating expenses and reduce its projected cash requirements through permanently or temporarily closing retail dispensaries that are under performing, and/or implementing other restructuring activities. There is no assurance the Company will be successful in achieving these goals.

The Senior Secured Debt is subject to certain debt service ratio requirements, interest reserves, cross-corporate guarantees and defaults, subordination agreements and intercreditor agreements, along with a general corporate guaranty from the Company.

The Company's Term Loan (see Note 15, *Term Loan*, in the 2023 Consolidated Financial Statements for the Company's disclosures on the Term Loan) is subject to debt service ratio requirements, interest reserves, certain cross-corporate guarantees and defaults, subordination agreements and intercreditor agreements, along with a general corporate guaranty from the Company and is secured by certain real estate assets, cannabis licenses and other assets of the Company, Urban Leaf and Loudpack.

The amount of current liabilities as at December 31, 2023 and December 31, 2022, of approximately \$132.5 million and \$124.3 million, respectively, includes the provision for an uncertain tax position related to IRC §280E, and the estimated federal income taxes payable as at period-end. The Company does not expect to pay cash for amounts related to the provision within the next twelve months in accordance with the IRS Agreement entered into by the Company on July 28, 2022. The remaining balance in the provision relates to uncertain tax positions in which the Company does not currently expect any material payments resulting from its IRC §280E provision to be made within 12 months of the issuance date of the 2023 Consolidated Financial Statements. See "Provisions" for additional information.

Due to the federal status of cannabis, third party transfers of funds into bank accounts are restricted. After the funds are received, however, there are no banking restrictions on the movement of funds to related parties or third-party accounts.

***Selected Cash Flow Information for the Three and Twelve Months Ended December 31, 2023, and 2022:***

<i>\$ in thousands</i>	<b>For the Three Months Ended</b>		<b>For the twelve months ended</b>	
	<b>December 31, 2023</b>	<b>December 31, 2022 (Restated – Note 34)</b>	<b>December 31, 2023</b>	<b>December 31, 2022 (Restated – Note 34)</b>
Net cash (used in) provided by:				
Net Loss	\$ (20,301)	\$ (198,874)	\$ (50,014)	\$ (243,397)
Non-Cash Adjustments	20,473	215,644	36,874	244,325
Changes in non-cash working capital items	(9,018)	(19,148)	7,796	(36,194)
Operating activities	(8,845)	(2,378)	(5,343)	(35,266)
Financing activities	5,439	(1,404)	3,610	27,006
Investing activities	(424)	(64)	(1,158)	3,888
Net increase (decrease) in cash and restricted cash	(3,829)	(3,846)	(2,891)	(4,373)
Effects of foreign exchange on cash and restricted cash	2,408	(372)	1,901	(1,300)
Cash and restricted cash, beginning of period	3,850	9,430	3,419	9,091
Cash and restricted cash, end of period	<u>\$ 2,430</u>	<u>\$ 5,212</u>	<u>\$ 2,430</u>	<u>\$ 3,419</u>

***Operating Activities***

Net cash used in operating activities totaled \$5.3 million and \$35.3 million for the three and twelve months ended December 31, 2023 and 2022, respectively. The fluctuation in cash provided by operating activities was primarily due to a decrease in working capital requirements in 2023 compared to 2022.

The Company is evaluating a number of options to improve operating results, including general and administrative cost reductions, disposal of non-core assets, adoption of uniform processes and procedures and streamlining operations.

### *Financing Activities*

Net cash provided by financing activities totaled \$4.3 million and \$3.6 million for the three and twelve months ended December 31, 2023, respectively, compared to net cash used in and provided by financing activities of \$2.2 million and \$27.0 million for the three and twelve months ended December 31, 2022, respectively. The Company's financing activities during the twelve months ended December 31, 2023, consisted of net proceeds of approximately \$7.5 million from the Term Loan, \$2.1 million from the issuance of warrants, and \$(0.1) million from the sale of fixed assets offset by a \$1.8 million paydown on notes payable and \$6.0 million of payments of principal on lease liabilities.

### *Investing Activities*

Net cash used in investing activities totaled \$0.4 million and \$1.2 million for the three and twelve months ended December 31, 2023, respectively, compared to net cash used in and provided by investing activities of \$0.1 million and \$3.9 million for the three and twelve months ended December 31, 2022, respectively. The activity during the three and twelve months ended December 31, 2023, related to purchases of property, plant and equipment. The activity during the twelve months ended December 31, 2022, related to cash paid and received from business combinations.

### *Contractual Obligations*

In addition to the commitments outlined in Note 11, *Right-of-use Assets and Lease Liabilities*, and Note 29, *Commitments and Contingencies*, of the 2023 Consolidated Financial Statements, the Company has the following contractual obligations as at December 31, 2023:

	<u>Less than 1 Year</u>	<u>1 to 3 Years</u>	<u>4 to 5 Years</u>	<u>&gt; 5 Years</u>	<u>Total</u>
Accounts payable	\$ 24,340,272	-	-	-	\$ 24,340,272
Accrued liabilities, payroll and loyalty rewards program	14,937,313	-	-	-	14,937,313
Accrued local and sales taxes	4,771,732	-	-	-	4,771,732
Notes payable	703,943	29,118,598	15,100,000	40,000	44,962,541
Excise, cultivation and property tax liabilities	17,884,700	3,024,000	-	-	20,908,700
IRS Agreement	600,000	1,200,000	1,200,000	1,950,000	4,950,000
Term Loan	-	75,351,031	-	-	75,351,031
Lease Liability	1,402,097	9,046,087	9,043,149	3,037,685	22,529,017
	<u>\$ 64,640,057</u>	<u>\$ 117,739,716</u>	<u>\$ 25,343,149</u>	<u>\$ 5,027,685</u>	<u>\$ 212,750,606</u>

### **Commitments and Contingencies**

#### *Employee Retention Credit ("ERC")*

As discussed in Note 21 to the accompanying financial statements, the Company received approximately \$6,400,000 of ERC funds through the Coronavirus Aid, Relief and Economic Security Act. The ERC program requires the Company to comply with certain conditions, including maintaining certain levels of employment and not reducing wages of certain employees. The Company has adhered to all requirements of the program and believes it will not be liable to pay back any portion of the ERC. However, the company can provide no guarantee that they will not be required to repay the credit. The Company will continue to assess these matters each period and record the appropriate amounts in connection with any changes to the status of the ERC compliance.

#### *IRC §280E*

Many of the central issues relating to the interpretation of IRC §280E remain unsettled and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E) that have never been addressed by any Treasury regulation or court case. IFRIC 23 provides guidance that adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated its uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the IRS and the U.S. Tax Court, determined that a reserve for an uncertain tax position should be recorded.

On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to SJW to disallow all of SJW's deductions pursuant to IRC §280E for all the years at issue. On May 14, 2021, the Company appealed the U.S. Tax Court ruling. In an effort to resolve the matter as part of a global settlement, the Company withdrew its appeal. On June 28, 2022, the Company entered into the IRS Agreement related to certain federal tax returns of PMACC (Note 18).

#### *Pending Litigation*

From time to time, the Company may become defendants in legal actions and the Company intends to take appropriate action with respect to any such legal actions, including defending itself against such legal claims as necessary. As the Company continues to operate, it may become party to additional litigation matters and claims. The outcomes of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect the Company's financial position, results of operations or cash flows.

#### *Sublime Concentrates, Inc. v. Sublime Machining, Inc.*

On September 18, 2018, Sublime Machining, Inc. entered into a trademark assignment agreement with Sublime Concentrates, Inc. (the "Counterparty") for use of certain trademarks. The Counterparty filed suit against Sublime Machining, Inc. alleging breach of contract regarding the nonpayment for the transfer of the trademark assets. On February 23, 2023, the Company entered into the Fang Settlement Agreement, which calls for certain cash payments to be made to the Company in exchange for the release of any claims (Note 8).

#### *Joshua Bubeck v. StateHouse Holdings Inc., Harborside Inc., UL Management LLC, UL Holdings Inc., Edward Schmults, and Will Senn*

On August 25, 2022, the Company received a complaint on behalf of a former executive and Urbn Leaf co-founder, Joshua Bubeck. The complaint alleges various wage and hour claims, as well as breach of contract. This matter has been referred to the Company's insurance carrier and counsel. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

#### *Denise M. Harbison v. Twyla Williams; and Uprooted, Inc.*

On or about September 9, 2022, the company received a complaint that was filed August 26, 2022, related to a vehicle accident. The complaint alleges two claims of negligence, and negligence per se. This matter has been referred to the company's insurance provider. On March 31, 2023, the policy limits were offered to resolve the claim. On September 7, 2023, a request for dismissal was filed and approved.

#### *Norguard Insurance Company v. Calgen Trading, Inc. dba Urbn Leaf and 909 West Vista Way LLC*

On September 15, 2022, the Company received a complaint alleging that one of the Company's contracted security guards was injured on the job in May of 2020. The plaintiff, who is the worker's compensation insurance carrier for the contracted security company, is seeking compensatory damages in connection with this complaint. This matter has been referred to the Company's insurance carrier. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

#### *Global Alliance for Cannabis Commerce v. UL Holdings Inc.*

On December 30, 2022, the Company received a summons and complaint from the Global Alliance for Cannabis Commerce alleging breach of contract and accounts stated. On March 23, 2023, the Company entered into a settlement agreement, which calls for certain cash payments to be made by the Company in exchange for the release of any claims.

*Christopher Francy v. UL Holdings Inc and William Senn*

On June 23, 2023, UL Holdings Inc (“UL Holdings”) received a demand letter (the “Francy Demand Letter”) from Christopher Francy (“Mr. Francy”), a former 680 Broadway Master LLC joint venture partner. The Francy Demand Letter alleges that the company owes payment to Mr. Francy pursuant to the terms of a settlement agreement entered into between the UL Holdings and Mr. Francy on March 8, 2022. In addition, on September 8, 2023, UL Holdings received a summons and complaint on behalf of Mr. Francy alleging breach of contract. On January 31, 2024, the parties executed a settlement agreement, pursuant to which UL Holdings agreed to make settlement payments of \$440,000 over time.

*Maria Adan and Other Individuals Similarly Situated v. LPF RE Manager, LLC*

In October 2019, Loudpack received a summons regarding wage and hour claims related to Loudpack's security screening procedures. The parties have executed a class action settlement agreement and have agreed to a maximum settlement amount. The settlement payments in connection with such settlement agreement must be paid over biweekly payments starting 30 days after final approval from the court is obtained, which is expected to be in late 2023. On June 29, 2022, the court granted preliminary approval of the settlement. On April 24, 2023, the Company received final judgment in connection with this claim, pursuant to which the Company agreed to make settlement payments over time. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

*Jose Zamudio and Sandra Gasca v. LPF RE Manager, LLC et al*

In February 2020, LPF RE Manager, LLC was served with a summons for a third wage and hour claim related to Loudpack's security screening procedures. On April 13, 2023, the parties executed a settlement agreement, pursuant to which the Company agreed to make settlement payments over time. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

*Abigail O'Flaherty v. Greenfield Prop Owner II, LLC and Greenfield Organix*

In September 2020, Greenfield Prop Owner II, LLC received a complaint alleging personal injury damages arising from a car accident on May 24, 2019 involving a Company owned vehicle. Loudpack tendered a claim with its insurance provider and is being defended by panel counsel retained through such insurance provider. On October 20, 2023, the Loudpack received a notice of entry of dismissal in connection with the matter and was advised that a settlement between the parties had been finalized.

*Gregory Bannon v. Steven Swanson; Greenfield Prop Owner II, LLC*

On November 23, 2021, Loudpack was served a complaint alleging personal injury and property damage. On July 18, 2022, plaintiff's counsel sent a statutory offer to compromise, and the parties are in process of negotiating a settlement amount. The Company was notified that the matter was settled as of September 19, 2022. The court had scheduled a Compliance Hearing regarding Dismissal for December 12, 2022. The compliance hearing was subsequently moved to March 9, 2023 and was continued by the court until May 16, 2023. On May 3, 2023, the Company received a copy of the release of all claims and the request for dismissal of this matter.

*Elliot Espinoza v. Eaze Technologies; Cura Cannabis Solutions; Select; Kingpen; Loud Pack Farms; Loudpack, Inc; Loud Pack Legendz LLC; Loud Pack Legendz, Inc.; et al.*

In September 2021, Loudpack was served with a complaint for compensatory damages alleging claims for product liability, misrepresentation, and negligence. The plaintiff has alleged that in January 2019, he ingested Kingpen Skywalker OG and Select Adjustable Pro vaporizer products and had an adverse allergic reaction to the products resulting in serious bodily injury. Loudpack tendered a claim with its insurance carrier to assist in the defense of this matter. On December 21, 2023, the parties executed a settlement agreement, pursuant to which Loudpack agreed to make a settlement payment to the plaintiff to resolve all claims.

*Robby Castillo Ordonez and Jessica Carolina Hernandez Rodriguez de Castillo v. Holistic Healing Alternative, Inc., LP-KP IP Holdings, LLC and Greenfield Organix*

On July 25, 2022, the Company was served with a summons and complaint alleging a breach of statutory obligation, negligent exercise of retained control, premises liability, civil harassment, Bane civil rights act and loss of consortium. The Company denies any direct or indirect involvement with the plaintiff's claims, or any potential liability in this matter. This matter has been referred to the Company's external counsel and insurance carrier. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Monterey County Office of the Assessor v. Greenfield Prop Owner II, LLC*

On or about October 4, 2021, Loudpack received a letter from the Monterey County Office of the Assessor regarding an appeal of supplemental assessments due to an increased assessed value for the Company's Cherry Avenue property in Greenfield. This matter has been referred to the Company's external counsel. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Fusion LLF, LLC v. StateHouse Holdings Inc., formerly known as Harborside Inc.; Greenfield Organix; and ULBP Inc.*

On or about August 26, 2022, the Company received a demand letter from Fusion LLF, LLC regarding a receivable for entities Greenfield Organix and Humboldt Partner Group, Inc. The letter demands immediate payment for a past due balance. On January 3, 2023, the Company received a summons and complaint from Fusion LLF, LLC alleging breach of contract, account stated and right to attach order and writ of attachment regarding an unpaid balance. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Rocky Willeford, individually and on behalf of all others similarly situated v. Greenfield Organix and LPF JV Corporation*

On November 2, 2022, the Company received a summons and complaint alleging that Greenfield Organix and LPF JV Corporation had mislabeled product and that a claimant is seeking damages. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Kate Pellacani v. ULBP Inc.*

On April 12, 2023, ULBP Inc. received a complaint on behalf of a former employee Kate Pellacani. The complaint alleges that Ms. Pellacani was misclassified as an exempt employee resulting in unpaid wages and penalties. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Cynthia Summers v. UL San Jose LLC*

On December 18, 2023, UL San Jose LLC ("ULSJ") received a complaint alleging successor liability from Cynthia Summers, a former employee of DFWS Inc., an entity which previously held the retail store location purchased through receivership by ULSJ in 2020. On April 3, 2024, the ULSJ received notice that the matter was dismissed without prejudice.

*Payne's Distribution LLC dba Leef Distribution v. Greenfield Organix*

On October 20, 2023, the Greenfield Organix received a summons and complaint from Payne's Distribution LLC (dba Leef Distribution). The complaint alleges breach of written contract, reasonable value, open book account, and account stated regarding a debt owing. On January 17, 2024, the parties executed a settlement agreement, pursuant to which Greenfield Organix agreed to make settlement payments over time.

*Beacon Securities Limited v. StateHouse Holdings Inc., LPF JV Corporation, LPF JV LLC, and UL Holdings Inc.*

On March 6, 2024, StateHouse Holdings Inc received a statement of claim on behalf of Beacon Securities Limited (“Beacon”), a former financial advisor to LPF JV, a wholly owned subsidiary of StateHouse, alleging that StateHouse did not pay Beacon an advisory fee contractually owed to Beacon. It is the intent of the company to settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Global Assets, Liens, and Foreclosures*

On March 26, 2024, Statehouse received a demand letter and notice of debt assignment from Global Assets, Liens, and Foreclosures ("GALF") on behalf of HERBL Inc., alleging a debt that has been assigned to GALF. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Goldberg Weprin Finkel Goldstein LLP*

On June 3, 2024, StateHouse Holdings Inc. received a demand from Goldberg Weprin Finkel Goldstein LLP, a former legal vendor to LPF JV Corporation, alleging unpaid invoices. It is the intent of StateHouse Holdings Inc. to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*UL Holdings Inc. v. 2220 NBC, LLC, and NBC Multinational Cultivation Company LLC*

On January 8, 2024, UL Holdings filed a complaint against 2220 NBC, LLC, and NBC Multinational Cultivation Company LLC, note obligors to UL Holdings, alleging breach of note, money lent and received, foreclosure of collateral, alter ego, and fraudulent transfer, regarding an unpaid balance. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Employment Agreements*

Certain of the Company's employees have employment agreements under which the Company is obligated to make severance payments, accelerate vesting of stock options and provide other benefits in the event of the employee's termination, change in role or a change in control as defined in such agreements.

**Off-Balance Sheet Arrangements**

As at December 31, 2023, and the date of this MD&A, the Company does not have any off-balance sheet arrangements.

**Related Party Transactions**

**(a) Key Management and Director Compensation**

Key management includes directors and officers of the Company. Total compensation (comprised of salaries, benefits, one-time bonuses and share-based compensation) awarded to key management for the twelve months ended December 31, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Short-term employee benefits, including salaries and director fees	\$ 2,006,271	\$ 2,311,690
Share-based compensation - Directors and Executives	1,684,229	3,486,067
Total	<u>\$ 3,690,500</u>	<u>\$ 5,797,757</u>

As at both December 31, 2023 and December 31, 2022, \$202,540 was payable to Will Senn ("Mr. Senn"), Chief Corporate Development Officer, for deferred compensation.

As at December 31, 2023 and December 31, 2022, \$176,050 and \$164,567, respectively, was payable to the directors for quarterly director fees.

All amounts outstanding are unsecured, non-interest bearing and due on demand.

**(b) Related Parties**

The Company did not have any purchases of goods or services with related parties during the twelve months ended December 31, 2023 and 2022.

**(c) Other Related Parties**

On July 19, 2021, the Company entered into two consulting agreements with Entourage Effect Capital ("Entourage") in exchange for cash compensation. Pursuant to the terms of the first consulting agreement with Entourage, Matt Hawkins ("Mr. Hawkins") agreed to provide management services as Interim Chief Executive Officer ("CEO") of the Company. Pursuant to the terms of the second consulting agreement with Entourage, Entourage agreed to provide business and executive management services related to the Company's retail, wholesale and manufacturing operations. In connection with the Urbn Leaf Acquisition, the Company announced the resignation of Mr. Hawkins as Interim CEO and the appointment of Edward Schmults as CEO. As at December 31, 2023 and December 31, 2022, a total of \$45,000 was payable to Entourage for business and executive management services under the second consulting agreement.

An immediate family member of Mr. Senn was employed by the Company. Short term employee benefits including salary expense during the twelve months ended December 31, 2023 and 2022 was \$7,500 and \$88,427, respectively. As at December 31, 2023 and December 31, 2022, a total of \$86,587 and \$94,087 was payable for deferred compensation, respectively.

Lafayette leases a building in Stockton, California in which an officer of the Company owns a 45% interest in the entity that owns the building. On March 13, 2023, the Company entered into the Lafayette Membership Assignment. Pursuant to the Lafayette Membership Assignment, the Company assigned its 90% interest in Lafayette back to the other remaining partners and made a \$120,000 payment for back rent owed on the property in exchange for satisfaction of the Lafayette Note.

UL La Mesa LLC leases a building in La Mesa, California in which an immediate family member of an officer of the Company owns a 36.25% interest in the entity that owns the building. During the twelve months ended December 31, 2023 and 2022 the Company paid \$144,540 and \$130,000, respectively, for rent expense.

ULBP Inc. leases a building in La Mesa, California in which an officer of the Company owns a 50% interest in the entity that owns the building. During the twelve months ended December 31, 2023, the Company paid \$630,924 for rent expense. During the twelve months ended December 31, 2022 the Company paid \$63,469 for rent expense.

On January 9, 2023, the Company entered into a management services agreement with UL Management LLC and PDLP JV, LLC (the "Urbn Leaf WeHo Service Agreement") to manage and operate a dispensary under the Urbn Leaf brand in West Hollywood, California ("Urbn Leaf WeHo"). The Urbn Leaf WeHo Service Agreement has an initial term of five years and is subject to three automatic renewals of five years for a total of 20 years. The Company had a right to acquire a 50% ownership in PDLP JV, LLC for no additional consideration. On December 30, 2022, the Company exercised its right to acquire a 50% ownership in PDLP JV, LLC and is awaiting final approval from the City of West Hollywood (Note 33), and the Company expects for approval to be finalized during the year ended December 31, 2024. The total due to PDLP as of the year ended December, 31, 2023 was \$1,603,703 and is included in due to related parties on the consolidated statements of financial position.

As at December 31, 2023, a security deposit of \$140,000 was owed to San Jose LLC, a related party, and is included in due to related parties on the consolidated statements of financial position.

As at December 31, 2023, a total of \$44,035 was owed to 8939 La Mesa Partners, a related party, and is included in due to related parties on the consolidated statements of financial position.

As at December 31, 2023, a total of \$428,806 was owed to Hillside Partners, a related party, and is included in due

to related parties on the consolidated statements of financial position.

As at December 31, 2023, a total of \$108,526 was owed to Paragon Partners, a related party, and is included in due to related parties on the consolidated statements of financial position.

On September 19, 2023, the Company entered into an agreement with The Scott Company, LLC ("TSC") for professional services in exchange for \$15,000 and 367,000 RSUs on a monthly basis. The Company granted 734,000 RSU's on September 28, 2023 for the months of September and October. Additional RSU's were granted totaling 734,000 on December 5, 2023 for the months of November and December. All RSU's fully vest on the grant date. TSC is owned by a related party, James Scott, who is a member of the Board of Directors.

## **Capital Management**

The Company's objectives when managing its capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern, meet capital expenditures required for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given the changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt or acquire or dispose of assets. Except for certain restrictive covenants included in various debt agreements, the Company is not subject to externally imposed capital requirements. The Company's Board does not establish quantitative return on capital criteria for management, but rather relies on management's expertise to sustain future development of the business.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital given current economic conditions by:

- (i) minimizing discretionary disbursements;
- (ii) reducing operating expenditures throughout the Company; and
- (iii) exploring alternate sources of liquidity.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no material changes to the Company's capital management approach during the three and twelve months ended December 31, 2023 and 2022.

## **Financial and Risk Management**

The Company is exposed to a variety of financial instrument related risks. Management, in conjunction with the Board, mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

### **(a) Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis.

The Company's liquidity and operating results may be adversely affected if the Company's access to capital markets is hindered, whether as the result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its operating and financing activities.

As at December 31, 2023 and December 31, 2022, the Company had a cash and restricted cash balance of \$2,429,973 and \$3,419,112, respectively, to settle current liabilities of \$132,489,464 and \$124,283,888, respectively. The higher amount of current liabilities as at December 31, 2023 is primarily due to debt (Note 14) and the Company's excise, cultivation and property tax liabilities (Note 16).

In addition to the commitments outlined in Note 11, *Right-of-use Assets and Lease Liabilities*, and Note 29, *Commitments and Contingencies*, the Company has the following contractual obligations as at December 31, 2023:



	<u>Less than 1 Year</u>	<u>1 to 3 Years</u>	<u>4 to 5 Years</u>	<u>&gt; 5 Years</u>	<u>Total</u>
Accounts payable	\$ 24,340,272	-	-	-	\$ 24,340,272
Accrued liabilities, payroll and loyalty rewards program	14,937,313	-	-	-	14,937,313
Accrued local and sales taxes	4,771,732	-	-	-	4,771,732
Notes payable	703,943	29,118,598	15,100,000	40,000	44,962,541
Excise, cultivation and property tax liabilities	17,884,700	3,024,000	-	-	20,908,700
IRS Agreement	600,000	1,200,000	1,200,000	1,950,000	4,950,000
Term Loan	-	75,351,031	-	-	75,351,031
Lease Liability	1,402,097	9,046,087	9,043,149	3,037,685	22,529,017
	<u>\$ 64,640,057</u>	<u>\$ 117,739,716</u>	<u>\$ 25,343,149</u>	<u>\$ 5,027,685</u>	<u>\$ 212,750,606</u>

The Company had the following contractual obligations as at December 31, 2022:

	<u>Less than 1 Year</u>	<u>1 to 3 Years</u>	<u>4 to 5 Years</u>	<u>&gt; 5 Years</u>	<u>Total</u>
Accounts payable and accrued liabilities	\$ 44,411,826	\$ -	\$ -	\$ -	\$ 44,411,826
Notes payable	8,577,312	27,163,699	100,000	40,000	35,881,011
Excise, cultivation and property tax liabilities	24,717,641	1,080,227	-	-	25,797,868
IRS Agreement	600,000	1,800,000	1,200,000	1,350,000	4,950,000
Term Loan	-	5,797,500	5,362,688	66,139,812	77,300,000
	<u>\$ 78,306,779</u>	<u>\$ 35,841,426</u>	<u>\$ 6,662,688</u>	<u>\$ 67,529,812</u>	<u>\$ 188,340,705</u>

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecasted and actual cash flows. If insufficient liquidity exists, the Company may pursue various debt and equity instruments for either short or long-term financing of its operations.

#### **(b) Credit Risk**

Credit risk is the risk of potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash, accounts receivable, notes receivable and deposits and other assets, which expose the Company to credit risk should the borrower default upon maturity of the instruments. Cash and restricted cash are primarily held with reputable banks, and at secure facilities controlled by the Company.

Management believes that the credit risk concentration with respect to financial instruments included in cash, restricted cash and accounts receivable is minimal.

#### **(c) Market Risk**

##### *(i) Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate volatility as the Company's Senior Secured Debt has a variable interest rate of one-month SOFR, plus 12.5%, with a SOFR floor of 4.5% (Note 14). As at December 31, 2023, if market interest rates had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been \$367,449 lower as a result of higher interest expense.

##### *(ii) Foreign Exchange Risk*

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company's main operations are based in the U.S., and the majority of its business is transacted in U.S. Dollars. The Company's primary exposure to foreign exchange risk and rate fluctuations relates to bank deposits held in Canada and transactions denominated in Canadian dollars.

As of December 31, 2023, and 2022, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge

possible currency risks at this time as it deems its foreign currency exposure to be immaterial.

*(iii) Equity Price Risk*

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market or the cannabis sub-market. The Company's investments are subject to fluctuations in fair value arising from changes in the equity markets.

**(d) Asset Forfeiture Risk**

As the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which is used in the course of conducting such business, or is derived from the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

**(e) Banking Risk**

Notwithstanding that a majority of states in the United States have legalized cannabis for either adult or medical use, and the passage of the SAFE Banking Act by the U.S. House of Representatives, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal under the Controlled Substances Act, there is a valid argument that banks cannot accept funds for deposit from businesses involved in the cannabis industry.

Accordingly, due to the present state of the laws and regulations governing financial institutions in the U.S., only a small percentage of banks and credit unions offer financial services to the cannabis industry. Although the Company has strong relationships with several banking partners, regulatory restrictions make it extremely difficult for any cannabis company to maintain or enter into banking relationships with U.S. federally regulated entities. Additionally, U.S. federal prohibitions on the sale of cannabis may result in cannabis manufacturers and retailers being restricted from accessing the U.S. banking system and they may be unable to deposit funds in federally chartered banking institutions. While the Company does not anticipate material impacts from dealing with banking restrictions, additional banking restrictions could nevertheless be imposed that would result in existing deposit accounts being closed and/or the inability to make further bank deposits. The inability to open bank accounts would make it more difficult for the Company to operate and would substantially increase operating costs and risk.

In addition, the Company noted the following risks specific to the cannabis industry that it is exposed to:

*Tax Risk*

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

*Regulatory Risk*

Regulatory risk pertains to the risk that the Company's business objectives are contingent, in part, upon the compliance with regulatory requirements. Due to the nature of the industry, regulatory requirements can be more stringent than other industries and may also be punitive in nature. Any delays in obtaining, or failure to obtain regulatory approvals can significantly delay operational and product development and can have a material adverse effect on the Company's business, results of operation, and financial condition.

The Company routinely monitors regulatory changes occurring in the cannabis industry at the city, state, and national levels. Although the general regulatory outlook for the cannabis industry has been moving in a positive direction, unforeseen regulatory changes could have a material adverse effect on the business as a whole.

### Issued and Outstanding Share Capital

As at December 31, 2023 and the date of this MD&A, the Company had the following securities issued and outstanding on a fully diluted basis, expressed as the number of Common Shares issuable upon conversion or exercise, as applicable, of such securities:

Designation of Securities	Number of Underlying Common Shares
Common Shares	255,931,887
Options	21,614,242
Restricted Share Units	2,325,000
Warrants	152,024,179
<b>Total Fully Diluted Share Capital</b>	<b>431,895,308</b>

### Subsequent Events

The Company has evaluated subsequent events through July 31, 2024.

#### *Pelorus Debt Agreement*

On January 31, 2024, the Company entered into the eleventh omnibus agreement of the loan agreement to correct a scrivener's error that erroneously indicated the requirement of a \$1,000,000 pre-payment on February 1, 2024.

#### *Sale of LCGLORDIS2 LLC*

On April 26, 2024, the Company closed on the sale of LCGLORDIS2 LLC. LCGLORDIS2 LLC was listed as held for sale as of December 31, 2023.

#### *Entity Dissolutions*

The Company dissolved several entities during 2024 including: UL Benicia, LLC dissolved on February 5, 2024, Ocean Ranch LPFN, LLC dissolved on May 13, 2024, Oakland Machining Supply SLB dissolved on May 14, 2024, LPF Ohio, LLC dissolved on May 17, 2024, and Evergreen LPFN, LLC dissolved on May 17, 2024, as well as LPF Michigan, LLC, Benmore LPFN, CDRS Owner, LLC on June 12, 2024. Additionally, the Company has filed to dissolve and LGCLORDIS 1, LLC.

#### *Accucanna*

The Company executed a non-binding term sheet for the sale of the membership interests of Uprooted LM, UL San Jose LLC, San Leandro Wellness Solutions, Inc., and Accucanna, LLC. Although the terms of the agreement are non-binding, the Company expects to execute the sale during the second quarter of fiscal 2024 (Note 33). Thus, the entities' assets and liabilities are included in the assets and liabilities held for sale balances.

#### *Board Member Changes*

Effective January 15, 2024, the Company announced that Board Member, J. Roy Pottle resigned from its Board of Directors.

Effective April 15, 2024, Felicia Snyder has been appointed as independent Chair of the Board of Directors of the Company (the "Board") effective April 14th, 2024. In connection with the appointment, Matthew K. Hawkins has stepped down from the Board effective April 12th, 2024, to focus on capital raising activities ahead of Entourage Effect Capital's upcoming fourth fund launch.

## Restatement

### *Reclassifications*

For comparative purposes, the Company has reclassified certain items on the comparative Consolidated Statements of Financial Position to conform with the current year's presentation. The items reclassified were as follows:

- Management reclassified accounts payable and accrued liabilities items to further break out these liabilities on the balance sheet. Historically the balance sheet has reflected "Accounts payable and accrued liabilities." The balance sheet as of December 31, 2023 reflects these categories as accounts payable, accrued liabilities, payroll and loyalty rewards program, and accrued local and sales taxes.
- In the current year, the Company reclassified \$3,000,000 of depreciation relating to the production of inventory to costs of sales. The Company believes that the change in depreciation will provide shareholders with a better reflection of the Company's business activities and enhance the comparability of the Company's financial information to its industry peers.
- In the current year, the Company reclassified \$1,580,896 of interest and penalties on unpaid income taxes from interest expense to income taxes. The Company believes that the change in will provide shareholders with a better reflection of the Company's business activities and enhance the comparability of the Company's financial information to its industry peers.

### *Impairment Loss*

In connection with the preparation of its audited consolidated financial statements for the year ended December 31, 2023, the Company identified an error related to the calculation of impairment of its intangible assets for the year ended December 31, 2022, which resulted in an understatement of the impairment loss in that fiscal year. As such, the Company will recognize an additional impairment of \$10,528,000 for its intangible assets for the year ended December 31, 2022.

### *Income Taxes*

In connection with the preparation of its audited consolidated financial statements for the year ended December 31, 2023, the Company identified multiple errors related to income taxes for the year ended December 31, 2022.

Management reviewed the purchase accounting for the Urbn Leaf Acquisition. The original acquisition reported intangible assets with the acquisition that were impaired on the opening balance sheet. The previous analysis recorded this impairment as a permanent adjustment and did not record the deferred tax liability on the opening balance sheet. Management determined that a deferred tax liability of \$2,243,968 should have been recorded in the original purchase accounting. As such, the Company will recognize the deferred tax liability with a corresponding increase in goodwill for the same amount. The amounts to goodwill would have been impaired during the period its annual impairment tests for goodwill and intangible assets, which would have resulted in a subsequent reduction of the deferred tax liability and a deferred tax benefit recorded for the reduction in the deferred tax liability of \$2,243,968. Management also identified a \$4,574,668 overstatement of income tax payable related to the income taxes of the Company on the opening balance sheet for the Urbn Leaf Acquisition. This will result in a reduction of goodwill for the same amount.

Additionally, a \$2,181,547 reduction to income tax payable was recorded to reflect the adjustment of the income tax payable to the accurate balance of taxes owed from any tax years ending before January 1, 2023, with a corresponding reduction to income tax expense for the same amount. The Company reviewed each prior period and obtained transcripts and prior tax returns to determine the outstanding liabilities for periods prior to December 31, 2023.

After reviewing the income tax payable for balances outstanding as of December 31, 2022, Management reviewed the recording of penalties and interest on the unpaid liabilities, which the Company did not recognize previously. Management determined that penalties and interest should be recorded on the unpaid taxes as of December 31, 2022. Management calculated the interest and penalties on the unpaid balances as of December 31, 2022 and determined the balance to be \$1,811,800. Applicable interest rates obtained from the IRS were applied to the unpaid balances and additionally the large corporate rate was applied where applicable.

The changes are accounted for retrospectively and the financial statements for the year December 31, 2022, have been restated as summarized below:

	<u>As previously reported</u>	<u>Adjustment</u>	<u>As restated</u>
<b>Consolidated Statements of Loss and Comprehensive Loss</b>			
Total costs of goods sold	66,112,683	3,000,000	69,112,683
Gross profit	42,135,044	(3,000,000)	39,135,044
Depreciation and amortization	10,019,855	(3,000,000)	7,019,855
Total operating expenses	83,714,164	(3,000,000)	80,714,164
Impairment expense	196,655,965	8,197,300	204,853,265
Operating loss	(237,816,396)	(8,197,300)	(246,013,696)
Interest expense	(15,935,207)	1,580,896	(14,354,311)
Total other expenses	(10,082,772)	1,580,896	(8,501,876)
Net loss before income taxes	(247,899,168)	(6,616,404)	(254,515,572)
Income tax (expense) benefit	6,943,813	4,174,374	11,118,187
Net loss	(240,955,355)	(2,442,030)	(243,397,385)
Net loss attributable to StateHouse Holdings, Inc.	(240,386,032)	(2,442,030)	(242,828,062)
<b>Consolidated Statements of Financial Position</b>			
Intangible assets	27,069,000	(10,528,000)	16,541,000
Total assets	166,061,979	(10,528,000)	155,533,979
Income tax payable	30,411,289	(4,944,415)	25,466,874
Deferred tax liability	8,379,705	(3,141,555)	5,238,150
Total liabilities	276,734,293	(8,085,970)	268,648,323
Accumulated deficit	(358,801,715)	(2,442,030)	(361,243,745)
Total shareholders' deficit	(110,672,314)	(2,442,030)	(113,114,344)
<b>Consolidated Statements of Cash Flows</b>			
Net loss for the period	(240,955,355)	(2,442,030)	(243,397,385)
Impairment loss	196,655,965	8,197,300	204,853,265
Income tax payable	9,219,069	(4,944,415)	4,274,654

## Disclosure of Internal Controls over Financial Reporting

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the 2023 Consolidated Financial Statements do not contain any untrue statement of material fact, or omit to state a material fact required to be stated, or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented in the 2023 Consolidated Financial Statements; and (ii) the Company's 2023 Consolidated Financial Statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented. In contrast to non-venture issuers, this MD&A does not include representations relating to the establishment and maintenance of Disclosure Controls and Procedures ("DC&P") and Internal Control over Financial Reporting ("ICFR"). In particular, management is not making any representations relating to the establishment and maintenance of: controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its filings or other reports or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Investors should be aware that inherent limitations on the ability of management of the Company to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of filings and other reports provided under securities legislation.

## Risk Factors

The Company's results of operations, business prospects, financial position and achievement of strategic plans are subject to a number of risks and uncertainties and are affected by a number of factors which could have a material adverse effect on the Company's business, financial condition, or future prospects. These risks should be considered when evaluating an investment in the Company and may, among other things, cause a decline in the price of the shares. Refer to the Company's most recent Annual Information Form, filed on SEDAR at [www.sedar.com](http://www.sedar.com), for information on risk factors to which the Company is subject. In addition, see "Cautionary Note Regarding Forward-Looking Information" above.

## **Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets**

On February 8, 2018, the CSA published the Staff Notice, which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the U.S. as permitted within a particular state's regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents. Additional disclosure is required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. cannabis industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice.

Currently, the Company's involvement in the U.S. cannabis industry is "direct" through its operations from Harborside-branded retail dispensaries in Oakland, San Jose, San Leandro, San Francisco and Desert Hot Springs, California, the Terpene Station Dispensary in Oregon, the Salinas Production Campus, the Greenfield Campus, the Urbn Leaf-branded retail dispensaries in San Diego, San Ysidro, La Mesa, Vista, Grover Beach, San Jose and West Hollywood, California, and the distribution centers in San Jose and Los Angeles, California. Disclosures for issuers with "direct" involvement include, but are not limited to: (i) a description of the nature of a reporting issuer's involvement in the U.S. cannabis industry; (ii) an explanation that marijuana is illegal under U.S. federal law and that the U.S. enforcement approach is subject to change; (iii) a discussion of available guidance from federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities; (iv) a discussion of related risks, such as the risk that third-party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.; (v) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations; (vi) statement about whether and how the reporting issuer's U.S. marijuana-related activities are conducted in a manner consistent with U.S. federal enforcement priorities, including whether legal advice has been obtained regarding (A) compliance with applicable state regulatory frameworks and (B) potential exposure and implications arising from U.S. federal law; (vii) a quantification of the issuer's balance sheet and operating statement exposure to U.S. marijuana related activities; (viii) a summary of the regulations for the U.S. states in which the issuer operates; (ix) an explanation of how the issuer complies with applicable licensing requirements and regulations in those states; (x) a discussion of the issuer's program for monitoring ongoing compliance with cannabis laws in those states and the issuer's internal compliance procedures; (xi) a positive statement indicating that the issuer is in compliance with applicable licensing requirements and regulations in those states; and (xii) a discussion of any non-compliance, citations or notices of violation which may have an impact on the issuer's license, business activities or operations.

As a result of the Company's operations, the Company is therefore subject to the requirements of the Staff Notice and accordingly provides the following disclosure:

(i) *Nature of StateHouse's direct involvement in the U.S. cannabis industry*

The Company operates in and/or has ownership interests in California and Oregon, pursuant to state and local law and regulations. StateHouse's retail dispensaries serve both adult-use and medical cannabis customers. Harborside-branded retail dispensaries in California are located in Oakland, San Jose, San Leandro, San Francisco and Desert Hot Springs. StateHouse also owns a dispensary located in Eugene, Oregon which operates under the Terpene Station brand. The Company owns an 80% interest in FGW Haight Inc. ("FGW"), a company which operates a Harborside-branded retail dispensary in the Haight Ashbury district of San Francisco (the "FGW Dispensary"). FGW opened the FGW Dispensary under the Harborside brand in April 2022. On October 27, 2023 (the "Conversion Day"), the Company exercised its call option related to acquire an additional 29.9% interest in FGW. Additionally, the Company converted its \$1,265,000 convertible note into an additional ownership of 29.1%. The issuance and conversion increased the Company's interest in FGW to 80%. Following the closing of the Urbn Leaf Acquisition, the Company holds a 100% ownership interest in Urbn Leaf, a company that operates retail dispensaries in San Diego, San Ysidro, La Mesa, Grossmont, Vista, Grover Beach, Seaside, San Jose and West Hollywood. The Company's retail dispensaries have over 15 continuous years of operating history. See Note 7, *Prepaid Expenses and Other Current Assets*, in the 2023 Consolidated Financial Statements for the Company's disclosures on the FGW conversion.

StateHouse owns and operates the Salinas Production Campus in Salinas, California, which enables the Company to produce a wide array of cannabis products that can be offered at varying price points, meeting the ever diverse and changing habits of customers and other dispensaries, manufacturers, and distributors. Following the closing of the Loudpack Acquisition, the Company also owns the Greenfield Production Campus, one of the largest cannabis manufacturing facilities in the state of California, which focuses primarily on the creation, production and distribution of brands that are sold and shipped to Retailers throughout the state of California including the Company's own stores.

The Company owns a number of different cannabis brands that it sells through wholesale and retail markets including “Fuzzies”, “Loudpack”, “Kingpen”, “Kingroll”, “Dime Bag”, “Harborside”, “Harborside Farms”, “Key”, “Terpene Station”, “Sublime”, and “Urbn Leaf”. In addition, the Company exclusively licenses the “Smokiez” brand in California.

(ii) *Cannabis is still illegal under U.S. federal law*

While cannabis containing greater than 0.3% THC by volume (“marijuana”) and cannabis-infused products are legal under the laws of several U.S. states (with vastly differing restrictions), presently the concept of “medical”, “retail” or “adult-use” cannabis does not exist under U.S. federal law, which deems all cannabis (other than industrial hemp) federally unlawful. The U.S. Federal Controlled Substances Act (the “FCSA”) classifies marijuana as a Schedule I drug, making enforcement of federal marijuana prohibition a significant risk. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use and a lack of safety for the use of the drug under medical supervision. As such, cannabis-related practices, or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under U.S. federal law.

The U.S. Supreme Court has ruled in a number of cases that the federal government does not violate the federal constitution by regulating and criminalizing cannabis, even for medical purposes. Therefore, federal laws criminalizing the commercialization and use of cannabis preempt state laws that legalize its use for medicinal purposes by patients and discretionary purposes by adults, and regulate the commercial production, distribution and sale of cannabis. To the Company’s knowledge there are a total of 38 states, plus the District of Columbia, Puerto Rico, U.S. Virgin Islands, Guam and the Northern Mariana Islands that have legalized or decriminalized cannabis in some form (including hemp). Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis and THC continue to be categorized as controlled substances under the FCSA and as such, the production, distribution and sale of cannabis violates federal law in the United States.

(iii) *Available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in the jurisdictions where StateHouse operates*

The U.S. Department of Justice (the “DOJ”) has issued official guidance regarding cannabis enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use cannabis. In each instance, the DOJ has stated that it is committed to the enforcement of federal laws and regulations related to cannabis. However, the DOJ has also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the DOJ has rescinded all federal enforcement guidance specific to cannabis (including the Cole Memo, discussed below) and has instead directed that federal prosecutors should follow the “Principles of Federal Prosecution” originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the U.S. Attorney’s Manual. This direction has created broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use cannabis businesses, even if they are not engaged in cannabis-related conduct enumerated by the Cole Memo.

Prior to 2018 and per the Cole Memo issued on August 29, 2013, the DOJ acknowledged that certain U.S. states had enacted laws relating to the use of cannabis and outlined the U.S. federal government’s enforcement priorities with respect to cannabis notwithstanding the fact that certain states have legalized or decriminalized the use, sale, and manufacture of cannabis. The Cole Memo was addressed to “All United States Attorneys” from James M. Cole, former Deputy Attorney General of the U.S., indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which are to prevent:

1. Distribution of cannabis to minors;
2. Criminal enterprises, gangs, and cartels from receiving revenue from the sale of cannabis;
3. Transfer of cannabis from states where it is legal to states where it is illegal;
4. Cannabis activity from being a pretext for trafficking of other illegal drugs or illegal activity;
5. Violence or use of firearms in cannabis cultivation and distribution;
6. Drugged driving and adverse public health consequences from cannabis use;
7. Growth of cannabis on federal lands; and
8. Cannabis possession or use on federal property.

In particular, the Cole Memo noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the DOJ did not provide specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memo standard.

On November 14, 2017, Jeff Sessions, then the U.S. Attorney General, made a comment before the House Judiciary Committee about prosecutorial forbearance regarding state-licensed cannabis businesses. In his statement, Mr. Sessions stated that in accordance to the U.S. federal government's current policy, while states may legalize cannabis for its law enforcement purposes, it remains illegal with regard to federal purposes.

On January 4, 2018, the Cole Memo was rescinded by a one-page memo signed by Mr. Sessions (the "Sessions Memo"). It is the Company's opinion that the Sessions Memo did not represent a significant policy shift as it does not alter the DOJ's discretion or ability to enforce federal cannabis laws, but rather provides additional latitude to the DOJ to potentially prosecute state-legal cannabis businesses even if they are not engaged in cannabis-related conduct enumerated by the Cole Memo as being an enforcement priority. The result of the rescission of the Cole Memo is that federal prosecutors are now free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions; however, discretion is still given to the federal prosecutor to weigh all relevant considerations of a crime, including the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community. No direction was given to the federal prosecutors as to the priority they should ascribe to such activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities.

Furthermore, the Sessions Memo did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis was protected against enforcement by enacted legislation from U.S. Congress in the form of the Rohrabacher-Blumenauer Amendment (as defined herein) which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding (see "*U.S. Federal Budget Rider Protections*," below). Due to the ambiguity of the Sessions Memo in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law (see "Risk Factors").

As a result of the Sessions Memo, federal prosecutors may use their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws permitting such activity. No direction was given to federal prosecutors in the Sessions Memo as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memo did not discuss the treatment of medical cannabis by federal prosecutors. Under the Rohrabacher-Farr Amendment, federal prosecutors are prohibited from expending federal funds against medical cannabis activities that are in compliance with state law. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed. In Washington, Annette Hayes, U.S. Attorney for the Western District of Washington, released a statement affirming that her office will continue to investigate and prosecute "cases involving organized crime, violent and gun threats, and financial crimes related to marijuana" and that "enforcement efforts with our federal, state, local and tribal partners focus on those who pose the greatest safety risk to the people and communities we serve." However, in California, at least one U.S. Attorney has made comments indicating a desire to enforce the FCSA: Adam Braverman, Interim U.S. Attorney for the Southern District of California, has been viewed as a potential "enforcement hawk" after stating that the rescission of the 2013 Cole Memo "returns trust and local control to federal prosecutors" to enforce the FCSA. Additionally, Greg Scott, the Interim U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity: his office published a statement that cannabis remains illegal under federal law, and that his office would "evaluate violations of those laws in accordance with our district's federal law enforcement priorities and resources". U.S. Attorney General Jeff Sessions resigned on November 7, 2018.

Even though the Cole Memo has been rescinded, the Company will continue to abide by its principles and prescriptions, as well as strictly following the regulations set forth by the current U.S. federal enforcement guidelines and the U.S. states in which the retail cannabis dispensaries operate.

The Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, S. 3032 (2018), which would have protected individuals working in cannabis sectors from federal prosecution, was introduced in June 2018 through bipartisan efforts initiated by then Senator Cory Gardner together with Massachusetts U.S. Senator Elizabeth Warren. Senator Warren won re-election during the 2018 mid-term elections, which suggests she will support the change to federal law regarding cannabis. In addition, constituents of the State of Michigan voted to legalize recreational cannabis, making Michigan the first state in the Midwest U.S. to do so and the 10<sup>th</sup> in the U.S. overall, demonstrating growing sentiment among Americans towards legalization. Voters in the states of Missouri and Utah also approved ballot measures legalizing cannabis for medical use, making their states the 31<sup>st</sup> and 32<sup>nd</sup> to do so.



On December 20, 2018, the 2018 Farm Bill was signed by President Trump, and it permanently removed hemp and hemp derivatives (including CBD and other cannabinoids) from the purview of the FCSA.

William Barr was appointed as the U.S. Attorney General on February 14, 2019. In an April 10, 2019 Senate Appropriations Subcommittee meeting to discuss the Justice Department's 2020 budget, in response to a question about his position on the proposed STATES Act, Attorney General Barr stated: "Personally, I would still favor one uniform federal rule against marijuana," "But if there is not sufficient consensus to obtain that then I think the way to go is to permit a more federal approach so states can, you know, make their own decisions within the framework of the federal law. So we're not just ignoring the enforcement of federal law." The STATES Act, if it were to pass, would allow states to determine their own approaches to marijuana. Attorney General Barr said the legislation is still being reviewed by his office but that he would "much rather ... the approach taken by the STATES Act than where we currently are." It is unclear what impact this development will have on U.S. federal government enforcement policy. The inconsistency between federal and state laws and regulations is a major risk factor. The newly nominated Attorney General, Merrick Garland, has views that are unclear on this topic. Refer to the discussion under the heading "Mandated Disclosure for Canadian Companies with U.S. Marijuana-Related Assets".

On September 23, 2019, Attorneys General of 21 states sent another letter to congressional leaders, voicing support for a bipartisan bill that would shield state-legal cannabis programs from federal interference. The letter emphasized that the STATES Act would enable cannabis businesses to access financial services, increasing transparency and mitigating risks associated with operating on a largely cash-only basis. This letter, led by Attorney General Karl Racine of the District of Columbia, was jointly signed by Attorneys General from Alaska, California, Colorado, Connecticut, Illinois, Iowa, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, New Mexico, New York, Nevada, Oregon, Pennsylvania, Rhode Island, Vermont, and Washington State.

On November 21, 2019, the House Judiciary Committee voted 24 to 10 in favor of passing the Marijuana Opportunity Reinvestment and Expungement (MORE) Act of 2019. The bill would effectively put an end to cannabis prohibition in the U.S. on the federal level by removing it from Schedule 1 of the FCSA, and past federal cannabis convictions would be expunged. Additionally, if fully passed, the law would allow the Small Business Administration to issue loans and grants to cannabis-related businesses and provide a green light for physicians in the Veterans Affairs system to prescribe medical cannabis to patients, as long as they abide by state-specific laws.

On November 3, 2020, the U.S. held its 2020 presidential election, and adult-use cannabis legalization was approved via ballot measures in four additional states: Arizona, Montana, South Dakota and New Jersey. Additionally, medical cannabis was legalized via ballot measures in Mississippi and South Dakota, which became the first state to legalize medical and recreational cannabis simultaneously. In total, 15 states and Washington, DC have legalized cannabis for adult-use over the age of 21, while 36 states have legalized cannabis for medical use.

On November 4, 2020, the House passed the MORE Act, the first time that either Congressional house voted to de-schedule cannabis from the FCSA and thus decriminalize manufacturing, distribution, and possession. However, the Senate did not act before the end of the 2020 session.

On January 20, 2021, Joseph R. Biden was sworn in as the 46<sup>th</sup> President of the U.S, having announced a goal during his campaign to decriminalize cannabis possession federally; Democrats maintained their House majority and achieved control of the Senate. On March 10, 2021, House Democrats voted 220 to 211 in favor of passing the American Rescue Plan (ARP) Act, a \$1.9 trillion coronavirus relief package, which is among the largest economic stimulus packages in U.S. history. The ARP Act was signed by President Biden on March 11, 2021.

In March 2021, New York became the 16<sup>th</sup> state to legalize adult-use cannabis, both doing so through legislative action. In the same month, Senate Majority Leader Chuck Schumer of New York, and Senators Ron Wyden (OR) and Cory Booker (NJ) met with cannabis industry advocates including the National Cannabis Industry Association and the Minority Cannabis Business Association to announce their intention to introduce legislation in the U.S. Senate that would legalize, tax and regulate commercial cannabis activity at the federal level. While President Biden has supported decriminalization of possession and has not expressed support for de-scheduling cannabis, Vice President Harris was one of the original sponsors of the MORE Act while she was still serving in the U.S. Senate, and has publicly stated her support for cannabis de-scheduling. Senate Majority Leader Schumer has indicated the Senate leadership's willingness to champion full cannabis legalization even without the support of President Biden. However, the legislation has not yet been introduced, and its passage is not assured, notwithstanding Democratic control of the federal executive and legislature. Accordingly,

such statements of support for de-scheduling do not materially affect the likelihood of federal enforcement of current cannabis laws against the Company or any other state-licensed cannabis enterprise.

While newly appointed U.S. Attorney General Merrick Garland had previously commented that he would deprioritize enforcement of low-level cannabis crimes such as possession, and that federal reforms are closely tied to the larger issue of social justice for minorities, Attorney General Garland has yet to offer further clarity on how he will enforce federal law or how to deal with states that have legalized medical or recreational cannabis. While bipartisan support is gaining traction on decriminalization and reform, there is no imminent timeline on any potential legislation. There is no guarantee that the Biden Presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with state laws.

On April 1, 2021, the House passed the latest iteration of the MORE Act.

On October 6, 2022, President Biden announced a proposed blanket pardon for people convicted of federal marijuana possession offences and asked state governors to do the same. In addition, he instructed Attorney General Merrick Garland and Secretary of Health and Human Services Xavier Becerra to review the classification schedule of marijuana, which could result in removal of cannabis from Schedule I of the FCSA.

**Any increase in the U.S. federal government’s enforcement of current U.S. federal law could cause adverse financial impact and remain a significant risk to the Company’s business, which could in turn have an impact on the Company’s operations or financial results. A change in its enforcement policies could impact the ability of the Company to continue as a going concern (see “Risk Factors”).**

#### U.S. Federal Budget Rider Protection

The U.S. Congress has passed appropriations bills (at various times, the “Rohrabacher-Farr Amendment,” the “Leahy Amendment” and the “Joyce Amendment,” hereinafter the “Budget Rider Protections”) each of the last several years to prevent the federal executive branch (and specifically the DOJ) from using congressionally appropriated funds to enforce the FCSA against regulated medical cannabis businesses operating in compliance with state and local laws, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical cannabis. The Budget Rider Protections were first introduced in 2014 and have been reaffirmed annually since then as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. On September 30, 2021, the amendment was renewed through the signing of a stopgap spending bill, effective through December 3, 2021. It should be noted that this amendment does not apply to adult-use cannabis.

U.S. courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable state law. However, because this conduct continues to violate U.S. federal law, U.S. courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with applicable state law – could be prosecuted for violations of U.S. federal law. Therefore, until Congress amends the FCSA regarding cannabis, enforcement of U.S. federal law remains a significant risk. Any increase in the U.S. federal government’s enforcement of current U.S. federal law could cause adverse financial impact and remain a significant risk to the Company’s business, which could in turn have an impact on the Company’s operations or financial results. A change in its enforcement policies could impact the ability of the Company to continue as a going concern.

#### Other statements made by U.S. federal authorities or prosecutors

In February 2018, former U.S. Attorney Billy Williams told a gathering that included Oregon Governor Kate Brown, law enforcement officials and representatives of the cannabis industry that Oregon has an “identifiable and formidable overproduction and diversion problem.” In May 2018, Attorney Williams issued a memorandum spelling out five U.S. federal enforcement priorities for illegal cannabis operations that violate U.S. federal laws, with the first priority to crack down on the leakage of surplus cannabis into bordering states where cannabis is still illegal. The memo also stated that U.S. federal prosecutors will also target keeping cannabis out of the hands of minors, any crimes that involve violence or firearm violations or organized crime, and cultivation that threatens to damage U.S. federal lands through improper pesticide and water usage.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by U.S. federal authorities or prosecutors regarding the risk of enforcement action in California or Oregon, the state jurisdictions within which StateHouse operates.

- (iv) *Related risks, including disruption of third-party provided services and the imposition of certain restrictions by regulatory bodies on StateHouse's ability to operate in the U.S.*

#### Asset forfeiture risk

As the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which is used in the course of conducting such business, or the proceeds of such business could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

#### Unfavorable tax treatment of cannabis businesses

Under IRC §280E of the U.S. Tax Code, no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the FCSEA) which are prohibited by federal law or the law of any state in which such trade or business is conducted. This provision has been applied by the IRS to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. IRC §280E therefore has a significant impact on the Company's retail sale of cannabis. A result of IRC §280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its U.S. income tax expenses.

#### Limited trademark protections

Due to the current illegality of cannabis sale or distribution under U.S. federal law, the Company is not able to register any U.S. federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the FCSEA, the U.S. Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the U.S. states in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks, and growth of the Company's business into other states may be adversely impacted by the Company's inability to pursue U.S. federal trademark registration.

#### Reliance on third-party service providers

Third-party service providers to the Company may withdraw or suspend their services to the Company under threat of criminal prosecution. Since under U.S. federal law the possession, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, companies that provide goods and/or services to companies engaged in cannabis-related activities may, under threat of federal civil and/or criminal prosecution, suspend or withdraw their services.

#### Customs and Border Protection

Foreign investors in the Company and the Company's non-U.S. citizen directors, officers and employees may be subject to travel and entry bans into the U.S. by Customs and Border Protection ("CBP"). Media articles in 2018 reported that certain Canadian citizens had been rejected for entry into the U.S. due to their involvement in the cannabis sector.

The majority of persons traveling across the Canadian and U.S. border do so without incident, whereas some persons are simply barred entry one time. The U.S. Department of State and the Department of Homeland Security have indicated that the U.S. has not changed its admission requirements in response to the legalization in Canada of recreational cannabis, but anecdotal evidence indicates that the U.S. may be increasing its scrutiny of travelers and their cannabis related involvement.

Admissibility to the U.S. may be denied to any person working or "having involvement in" the cannabis industry, according to CBP. Inadmissibility in the U.S. implies a lifetime ban for entry as such designation is not lifted unless an

individual applies for and obtains a waiver. Note that while the CBP previously publicized the foregoing policy on its website during the Trump Administration, the agency appears to have archived the webpage.

(v) *Ability to access public and private capital, and available financing options to support continuing operations*

U.S. federal anti-money laundering laws prohibit the deposit of returns from “specified unlawful activities” (including cannabis sales) into federally and state-chartered banks. The Company is subject to a variety of laws and regulations domestically and in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended and the rules and regulations thereunder, the *Criminal Code* (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada.

The SAFE Banking Act was passed by the U.S. House of Representatives on September 25, 2019, and reintroduced in the House and Senate in March 2021. The SAFE Banking Act generally prohibits a federal banking regulator from penalizing a depository institution under federal money-laundering laws for providing banking services to a legitimate cannabis-related business. Specifically, the SAFE Banking Act prohibits a federal banking regulator from (i) terminating or limiting the deposit insurance or share insurance of a depository institution solely because the institution provides financial services to a legitimate cannabis-related business; (ii) prohibiting or otherwise discouraging a depository institution from offering financial services to such a business; (iii) recommending, incentivizing, or encouraging a depository institution not to offer financial services to an account holder solely because the account holder is affiliated with such a business; (iv) taking any adverse or corrective supervisory action on a loan made to a person solely because the person either owns such a business or owns real estate or equipment leased or sold to such a business; or (v) penalizing a depository institution for engaging in a financial service for such a business.

As specified by the bill, a depository institution or a Federal Reserve bank shall not, under federal law, be liable or subject to forfeiture for providing a loan or other financial services to a legitimate cannabis-related business.

Notwithstanding that a majority of states have legalized medical cannabis, and the U.S. House’s passage of the SAFE Banking Act, the SAFE Banking Act has not been enacted into law, and there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that the U.S. federal government maintains sole jurisdiction over federally chartered banks and financial institutions, and that federal law provides that the production and possession of cannabis is illegal under the FCMA, federally chartered banks cannot accept funds for deposit from businesses involved with the cannabis industry. To date, fewer than 800 banks and credit unions in the U.S. offer financial services to the cannabis industry.

(vi) *StateHouse’s U.S. marijuana-related activities are conducted in a manner consistent with U.S. federal enforcement priorities, with legal advice regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law*

As discussed above, and notwithstanding the rescission of the Cole Memo, StateHouse continues to conduct its operations in compliance with the DOJ’s most recent expression of U.S. federal enforcement priorities as set forth in the Cole Memo, which in turn presumes compliance with applicable state cannabis laws and regulations as an underlying premise for non-enforcement. In addition to employing in-house legal counsel, StateHouse utilizes outside legal counsel to advise the Company on compliance with applicable state regulatory frameworks in the states where its retail dispensaries and production facilities conduct operations, as well as potential exposure and implications arising from developments in U.S. federal law. See the discussion further below for additional detail on how StateHouse conducts its operations in full compliance with applicable local and state cannabis laws and regulations in Oregon and California.

(vii) *StateHouse’s balance sheet and operating statement exposure to U.S. marijuana related activities*

The following represents the approximate portion of certain assets and liabilities on StateHouse’s consolidated statements of financial position that pertain to U.S. cannabis activities as at December 31, 2023:

<b>Statements of Financial Position Line Items</b>	<b>Percentage (%) which related to holdings with U.S cannabis-related activities</b>
Cash	98%
Accounts receivable, net	99%
Inventories	100%
Biological assets	100%
Prepaid expenses and other current assets	51%
Intercompany receivable	0%
Notes receivable	65%
Assets held for sale	100%
Property, plant and equipment, net	100%
Right-of-use assets	100%
Deposits and other assets	100%
Due from other entities	100%
Intangible assets	100%
Deferred tax asset	100%
Accounts payable	89%
Accrued liabilities, payroll and loyalty rewards program	97%
Accrued local and sales taxes	100%
Notes payable - current	100%
Accrued excise, cultivation and property tax liabilities - current	100%
Lease liabilities - current	100%
Liabilities associated with assets held for sale	100%
Income taxes payable	100%
Provisions - current	0%
Notes payable, net of current portion	100%
Term loan, net of current portion	38%
Provisions, net of current portion	100%
Excise, cultivation and property tax liabilities	100%
Derivative liabilities	100%
Deferred tax liability	100%
Lease liabilities	100%

The following represents the approximate operating exposure on StateHouse’s consolidated statements of income (loss) and comprehensive income (loss) that pertain to U.S. cannabis activities for the twelve months ended December 31, 2023:

Statements of Financial Position Line Items	Percentage (%) which related to holdings with U.S cannabis-related activities
Net revenue	100%
Cost of goods sold	100%
Changes in fair value less costs to sell of biological assets transformation	100%
Realized fair value amounts included in inventory sold	100%
General and administrative	93%
Professional fees	83%
Share-based compensation	100%
Allowance for expected credit losses	100%
Depreciation and amortization	100%
Interest expense, net	61%
Other income, net	100%
Gain on sale of business	100%
Fair value loss in other current assets and derivative liabilities	59%
Foreign exchange gain	0%

*Summary of applicable state regulations in California and Oregon*

Regulations differ significantly amongst U.S. states. Some states only permit the cultivation, processing and distribution of medical cannabis and cannabis-infused products. Some others also permit the cultivation, processing, and distribution of cannabis and cannabis-infused products for adult use purposes. The following sections present an overview of state-level regulatory conditions for the cannabis industry in which the Company’s retail dispensaries have an operating presence:

California

California passed the first medical cannabis law in the U.S., the California Compassionate Use Act (“CUA”), through Proposition 215 in 1996. The CUA created a legal defense to criminal prosecution for the use, possession, and cultivation of cannabis by patients with a valid physician’s recommendation.

California then adopted Medical Marijuana Program Act (*aka* Senate Bill 420) in 2003, establishing not-for-profit medical cannabis patient collectives and retail dispensaries, a limited immunity from arrest for medical cannabis patients and collectives, and a voluntary patient ID card system.

In September of 2015, the California state legislature (the “Legislature”) passed three bills collectively known as the “Medical Cannabis Regulation and Safety Act” (“MCRSA”). MCRSA established a licensing and regulatory framework for medical cannabis businesses in California (which is still reflected in the successor laws discussed below) and permitted the formation and operation of for-profit cannabis businesses for the first time. The licensing system features multiple license types for storefront and delivery retailers, extraction facilities, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Extraction facilities require either a volatile solvent or non-volatile solvent manufacturing license, depending on their specific extraction methodology. Multiple agencies oversee different aspects of the program and businesses require both a state license and local approval to operate.

On November 8, 2016, California residents voted to approve the “Control, Regulate and Tax Adult Use of Marijuana Act” (“AUMA”) to tax and regulate cannabis for all adults 21 years of age and older.

On June 27, 2017, the Legislature passed state Senate Bill No. 94, also known as the “Medicinal and Adult-Use Cannabis Regulation and Safety Act” (“MAUCRSA”), which amalgamated the MCRSA and AUMA frameworks to provide a single uniform statute governing both medical and adult-use cannabis businesses, and authorizing the adoption of regulations, a licensing regime, and state taxes for cannabis businesses in the state. On November 16, 2017, the state introduced initial “emergency” regulations proposed by the BCC (within the California Department of Consumer Affairs), the Manufactured

Cannabis Safety Branch (within the California Department of Public Health (“MCSB”)) and CalCannabis (within the California Department of Food and Agriculture (“CalCannabis,”) and together with the BCC and MCSB, the “Licensing Agencies”), which were ultimately adopted. The regulations built on MCRSA and AUMA and reinforced compliance with local laws as a prerequisite to compliance with the state regulations. On January 1, 2018, the new state regulations took effect, and the first legal adult-use cannabis businesses opened in California.

In 2020, Governor Newsom proposed to simplify the regulatory structure by merging the Licensing Agencies into a single, new state department, the Department of Cannabis Control (“DCC”). Effective July 12, 2021, all licensed cannabis businesses in California are regulated by the DCC.

MAUCRSA requires anyone engaged in “commercial cannabis activity”, which includes the cultivation, possession, manufacture, distribution, processing, storing, laboratory testing, packaging, labeling, transportation, delivery, or sale of cannabis and cannabis products, to be licensed (on an annual basis) to perform such activity. To legally operate a medical or adult-use cannabis business in California, cannabis operators must obtain both a state license and local approval. Local authorization is a prerequisite to obtaining the state license, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Vertical integration across multiple license types is allowed under MAUCRSA, although testing laboratory licensees may not hold any licenses other than a laboratory license.

### Oregon

In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical cannabis law with an inclusive set of qualifying conditions. In 2013, Oregon enacted House Bill 3460 to create a regulatory structure for existing unlicensed medical cannabis storefront dispensaries. On June 30, 2015, Oregon enacted House Bill 3400, which improved on the existing regulatory structure for medical cannabis businesses and created a licensing process for cultivators and processors. The Oregon Health Authority (“OHA”) is the state agency that licenses and regulates medical cannabis businesses. The medical cannabis regulatory framework is referred to as the Oregon Medical Marijuana Program.

In November of 2014, Oregon voters passed Measure 91, the “Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act,” creating a regulatory and licensing system for adult-use retail cannabis stores and permitting home cultivation of cannabis. The Oregon Liquor and Cannabis Commission (the “OLCC”) licenses and regulates adult-use cannabis businesses. On October 15, 2015, the OLCC published draft recreational cannabis rules, which were adopted on June 29, 2016, as OLCC Division 25 of the Oregon Administrative Rules (“OAR Division 25”). These rules have been updated on a regular basis, due to administrative prerogative and legislative changes. Currently licensed cannabis companies in Oregon are not subject to residency requirements. OAR Division 25 is likely to continue to evolve, subject to OLCC’s review and approval. Local governments may restrict – through reasonable time, place, and manner restrictions – or, under certain conditions, wholly prohibit the establishment of medical dispensaries or processing sites or any adult-use marijuana business within their jurisdiction.

In Oregon, there are six types of commercial cannabis licenses: producer (cultivation), processor (manufacture), wholesaler, retailer (dispensary), laboratory (testing), and research. Extracted oils, edibles, and flower products are permitted. Wholesale and delivery are also permitted.

Until recently, Oregon law did not limit the number of adult-use cannabis business licenses. The passage of SB 218 in 2019 immediately prohibited the issuance of producer licenses for new applications that were submitted after June 15, 2018. SB 218 was repealed on January 2, 2022. Also, in late May 2018, OLCC announced a “moratorium” on the processing of new applications of all license types submitted after June 15, 2018 – purportedly until it fully processes the backlog of applications submitted up to and on June 15, 2018 – although, with the exception of producer applications pursuant to SB 218, it continues to accept new applications. License renewals, changes of ownership of licenses, changes of location, and changes in financial interests in licenses remain unaffected by SB 218 or the moratorium.

Like California licensees, holders of cannabis licenses in Oregon are subject to a detailed regulatory scheme encompassing security, staffing, sales, manufacturing standards, testing, inspections, storage, inventory, advertising and marketing, product packaging and labeling, records and reporting, transportation and delivery, tracking of commercial cannabis activity and movement of cannabis and cannabis products across the supply chain, maintaining adequate controls against the diversion, theft, and loss of cannabis or cannabis products, and more. As with all jurisdictions, the full regulations, as

promulgated by each applicable licensing agency, should be consulted for further information about any particular operational area.

(viii) *How StateHouse complies with applicable licensing requirements and regulations in California and Oregon*

The Company is duly licensed and permitted to cultivate, manufacture, distribute, sell and deliver wholesale and retail cannabis and cannabis products pursuant to state and local laws and regulations. StateHouse files all ownership disclosures, reports, notices and other submissions to the applicable licensing agencies required to maintain its current licenses and permits in good standing, and pays any licensing and permitting fees due in connection therewith.

The Company's cannabis goods are produced in full compliance with all applicable state laws and regulations. The goods are tested for potency and safety by independent laboratories licensed by the DCC, and all other consumer protection and youth access-prevention laws are adhered to, including but not limited to state packaging, labeling, marketing and advertising laws. All applicable local and state cannabis taxes are paid and remitted to the applicable taxing authorities. In order to satisfy regulations intended to prevent diversion to the illicit market, the Company employs inventory control and reporting systems that document the present location, amount, and a description of all cannabis goods at all StateHouse entities. All cannabis goods are tracked from seed to shelf using METRC technology, and other integrated systems adopted by the Company. Cannabis inventory is regularly manually reconciled against METRC according to the regulations. The Company performs regular monthly manual inventory reconciliations.

Additionally, the Company has undertaken extensive measures to ensure the security of the Company and its facilities, inventory, staff, customers, and community. Each of the Company's licensed facilities has strict access control, thorough camera coverage, and burglar alarms. These controls are supported by on-site security in certain instances.

Finally, the Company employs an in-house compliance team to ensure compliance with all other applicable state and local regulations by individual employees and StateHouse entities, and the Company as a whole. The compliance team's compliance work is discussed in further detail below.

(ix) *StateHouse's program for monitoring ongoing compliance with California and Oregon cannabis laws and Harborside's internal compliance procedures*

The Company's compliance program includes an in-house compliance team dedicated to ensuring compliance with applicable local, U.S. state and federal laws on an ongoing basis. The Company presently employs four individuals on its compliance team and utilizes several additional employees whose job functions include some aspect of compliance. The compliance team is tasked with carrying out various compliance-related tasks, including:

- ongoing review of Company's policies, procedures, and controls to ensure alignment with local and state rules and regulations;
- ongoing training on the Company's policies, procedures and controls, local and state rules and regulations, and the basic elements of the compliance program for all staff (with supplemental trainings tailored for staff with specialized job functions, on an as needed basis);
- monthly internal audits of Company processes and procedures; and,
- facility inspections to ensure compliance with the Company's policies, procedures and controls, and applicable local and state rules and regulations.

The Company's compliance team monitors state and federal law through routine review of regulatory websites, communication with regulatory authorities, and subscription to industry resources that are focused on legal and compliance related issues. As rules or regulations are adopted, the Company's compliance team updates internal policies and procedures, as appropriate, and disseminates written guidance to all StateHouse entities.

The Company may also employ government relations professionals to help monitor the changing landscape of state and local law, while employing external legal counsel that assist in the monitoring, notification, and interpretation of any changes in the jurisdictions in which it operates. Such counsel regularly provides legal advice to the Company on maintaining compliance with state and local laws and regulations and the Company's legal and compliance exposures under U.S. federal law.

(x) *Confirmation that StateHouse is in compliance with applicable licensing requirements and regulations in California and Oregon*



As of the date of this MD&A, StateHouse is in compliance with applicable licensing requirements and regulations in both California and Oregon.

(xi) *Non-compliance, citations, or notices of violation which may have an impact on StateHouse's license, business activities or operations.*

As of the date of this MD&A, the Company has not received any notices of violation, denial or non-compliance from any U.S. state authorities imposing any material restriction and/or fines on StateHouse's operations.

### **Management's Responsibility for Financial Information**

Management is responsible for all information contained in this MD&A. The Company's 2023 Financial Statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the 2023 Consolidated Financial Statements in all material aspects.

### **Approval**

The Company's audit committee (the "Audit Committee") has reviewed the 2023 Consolidated Financial Statements and this MD&A with management of the Company. At the recommendation of the Audit Committee, the Board has approved the 2023 Consolidated Financial Statements and the disclosures contained in this MD&A.

**July 31, 2024**

Edward M. Schmults  
CEO and Director