



# STATEHOUSE

H O L D I N G S

**STATEHOUSE HOLDINGS INC.**

**(formerly Harborside Inc.)**

**Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine Months Ended September 30, 2022 and 2021**

**(Expressed in United States Dollars)**

**STATEHOUSE HOLDINGS INC.**  
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## Management's Responsibility for Financial Reporting

To the Shareholders of StateHouse Holdings Inc. (formerly Harborside Inc.):

The accompanying unaudited condensed interim consolidated financial statements were prepared by management of StateHouse Holdings Inc. (formerly Harborside Inc.) (the "Company") and were reviewed by the Audit Committee and approved by the Board of Directors of the Company (the "Board").

Management is responsible for the unaudited condensed interim consolidated financial statements and believes that they fairly present the Company's financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company's unaudited condensed interim consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors of the company and were signed on behalf of Management by:

November 22, 2022

Edward M. Schmults ("Signed")  
Chief Executive Officer

Tom DiGiovanni ("Signed")  
Chief Financial Officer

# STATEHOUSE HOLDINGS INC.

Unaudited Condensed Interim Consolidated Statements of Financial Position  
As At September 30, 2022 and December 31, 2021  
(Expressed in United States Dollars, except share amounts)

	Note	September 30, 2022	December 31, 2021
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 7,635,392	\$ 8,774,941
Restricted cash	17	1,794,790	316,464
Accounts receivable, net	4	8,943,886	4,546,357
Inventories	5	13,750,066	6,414,150
Biological assets	6	573,929	443,839
Prepaid expenses and other current assets	7	9,251,749	5,563,221
Notes receivable	9	1,769,832	1,065,393
Assets held for sale	13	2,183,445	-
Total current assets		45,903,089	27,124,365
Investments and advances	8	-	2,458,011
Property, plant and equipment, net	10	99,494,436	23,515,610
Right-of-use assets	12	18,927,819	4,433,397
Deposits and other assets		2,040,508	390,325
Due from other entities		432,114	-
Intangible assets	11	67,772,072	64,692,644
Goodwill	11	139,898,423	31,206,577
<b>TOTAL ASSETS</b>		<b>\$ 374,468,461</b>	<b>\$ 153,820,929</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	14	\$ 47,418,115	\$ 22,391,679
Notes payable - current	15	8,611,301	-
Excise, cultivation and property tax liabilities - current	18	29,188,204	1,301,135
Lease payable - current	12	1,652,028	714,181
Liabilities associated with assets held for sale	13	3,314,089	-
Income taxes payable		27,935,395	10,156,438
Provisions - current	20	15,919,099	36,051,249
Total current liabilities		134,038,231	70,614,682
Notes payable, net	15	26,481,911	-
Term loan, net	17	75,519,058	-
Revolving credit facility, net	16	-	11,845,678
Provisions	20	5,200,000	-
Excise, cultivation and property tax liabilities	18	1,080,227	-
Derivative liabilities	19	402	779,643
Deferred tax liability	23	18,353,688	17,363,459
Lease payable	12	28,935,897	5,614,703
<b>TOTAL LIABILITIES</b>		<b>289,609,414</b>	<b>106,218,165</b>
<b>Shareholders' Equity</b>			
Share capital	24	227,145,189	150,373,620
Contributed surplus	25	15,471,466	10,553,806
Reserve for warrants	26	1,709,844	2,233,556
Accumulated deficit		(162,382,419)	(118,415,683)
Non-controlling interests	27	2,914,967	2,857,465
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>84,859,047</b>	<b>47,602,764</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 374,468,461</b>	<b>\$ 153,820,929</b>
Commitments and contingencies (Note 30)			

Approved on behalf of the Board of Directors:

Edward M. Schmults ("Signed")

Director

Matt Hawkins ("Signed")

Director

The accompanying notes are an integral part of these consolidated financial statements

# STATEHOUSE HOLDINGS INC.

Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)  
For the Three and Nine Months Ended September 30, 2022 and 2021  
(Expressed in United States Dollars, except share amounts)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net revenue	\$ 30,847,158	\$ 17,445,607	\$ 82,712,364	\$ 45,240,649
Cost of goods sold	19,782,326	9,014,908	51,401,401	23,982,999
<b>Gross profit before biological asset adjustments</b>	11,064,832	8,430,699	31,310,963	21,257,650
Changes in fair value less costs to sell of biological asset transformation 6	(3,885,332)	(753,741)	(5,091,617)	643,648
Realized fair value amounts included in inventory sold	2,288,231	(894,699)	5,845,320	(1,819,700)
<b>Gross profit</b>	9,467,731	6,782,259	32,064,666	20,081,598
<b>Expenses</b>				
General and administrative 21	14,046,898	6,486,851	37,425,530	16,194,028
Professional fees	2,133,574	2,262,809	6,442,411	6,648,454
M&A and transactional expenses	-	1,178,351	8,361,233	3,230,633
Share-based compensation 25	913,357	327,623	3,940,800	510,772
Allowance for expected credit losses	1,317,497	264,628	1,208,057	341,670
Write-downs (recovery) of receivables and investments and advances 8	-	(116,000)	-	(116,000)
Depreciation and amortization 10, 11 & 12	2,624,890	709,419	6,600,856	1,123,085
<b>Total expenses</b>	21,036,216	11,113,681	63,978,887	27,932,642
<b>Operating income (loss)</b>	(11,568,485)	(4,331,422)	(31,914,221)	(7,851,044)
Interest income (expense), net	(5,262,056)	(722,290)	(11,161,416)	(2,540,981)
Other income (expense), net	(227,955)	928,581	(2,503,203)	297,022
Provisions 20	-	5,295,602	16,101,549	5,295,602
Loss on sale of business 22	(26,198)	-	(7,156,287)	-
Fair value gain in other current assets and derivative liabilities 8 & 19	443,711	3,513,557	1,718,744	10,500,674
Gain (loss) on debt extinguishment	32	-	(66,486)	128,417
Foreign exchange gain (loss)	(996,295)	(185,616)	(1,028,024)	160,921
<b>Total other income (expense)</b>	(6,068,761)	8,829,834	(4,095,123)	13,841,655
<b>Net income (loss) before income taxes</b>	(17,637,246)	4,498,412	(36,009,344)	5,990,611
Income tax expense 23	(2,823,478)	(1,821,395)	(8,513,663)	(4,555,094)
<b>Net income (loss)</b>	(20,460,724)	2,677,017	(44,523,007)	1,435,517
Net loss attributable to non-controlling interests 27	(331,749)	(56,585)	(556,271)	(145,291)
<b>Net income (loss) attributable to StateHouse Holdings Inc.</b>	<u>\$ (20,128,975)</u>	<u>\$ 2,733,602</u>	<u>\$ (43,966,736)</u>	<u>\$ 1,580,808</u>
<b>Weighted average number of shares outstanding</b>				
Basic 28	255,175,119	80,483,154	200,702,919	54,182,492
Diluted 28	255,175,119	81,402,008	200,702,919	55,731,346
<b>Net income (loss) per share</b>				
Basic 28	\$ (0.08)	\$ 0.03	\$ (0.22)	\$ 0.03
Diluted 28	\$ (0.08)	\$ 0.03	\$ (0.22)	\$ 0.03
<b>Comprehensive income (loss):</b>				
Net income (loss)	\$ (20,460,724)	\$ 2,677,017	\$ (44,523,007)	\$ 1,435,517
Comprehensive income (loss) attributable to non-controlling interests	(331,749)	(56,585)	(556,271)	(145,291)
<b>Comprehensive income (loss) attributable to StateHouse Holdings Inc. shareholders</b>	<u>\$ (20,128,975)</u>	<u>\$ 2,733,602</u>	<u>\$ (43,966,736)</u>	<u>\$ 1,580,808</u>

The accompanying notes are an integral part of these consolidated financial statements

# STATEHOUSE HOLDINGS INC.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the Nine Months Ended September 30, 2022 and 2021

(Expressed in United States Dollars, except share amounts)

	Note	Share capital	Contributed surplus	Reserve for warrants	Accumulated Deficit	Subtotal	Non-controlling interests	Equity incl. non-controlling interests
<b>Balance, January 1, 2021</b>		\$ 97,423,381	\$ 9,305,199	\$ 1,093,592	\$ (92,257,217)	\$ 15,564,955	\$ 3,066,630	\$ 18,631,585
Exercise of stock options	25	196,356	-	-	-	196,356	-	196,356
Share-based compensation	25	-	510,772	-	-	510,772	-	510,772
Issuance of SVS and MVS in private offering	24	13,115,086	-	-	-	13,115,086	-	13,115,086
Private offering issuance costs		(1,194,390)	-	-	-	(1,194,390)	-	(1,194,390)
Issuance of Bank Warrants	16	-	-	466,716	-	466,716	-	466,716
Issuance of Broker Warrants	24	-	-	1,134,112	-	1,134,112	-	1,134,112
Issuance of shares in acquisitions		40,821,359	-	-	-	40,821,359	-	40,821,359
Expiry of Broker Warrants		-	460,864	(460,864)	-	-	-	-
Net income (loss) for the period		-	-	-	1,580,808	1,580,808	(145,291)	1,435,517
<b>Balance, September 30, 2021</b>		<b>\$ 150,361,792</b>	<b>\$ 10,276,835</b>	<b>\$ 2,233,556</b>	<b>\$ (90,676,409)</b>	<b>\$ 72,195,774</b>	<b>\$ 2,921,339</b>	<b>\$ 75,117,113</b>
<b>Balance, January 1, 2022</b>		<b>\$ 150,373,620</b>	<b>\$ 10,553,806</b>	<b>\$ 2,233,556</b>	<b>\$ (118,415,683)</b>	<b>\$ 44,745,299</b>	<b>\$ 2,857,465</b>	<b>\$ 47,602,764</b>
Exercise of stock options	25	15,883	-	-	-	15,883	-	15,883
Share-based compensation	25	-	3,940,800	-	-	3,940,800	-	3,940,800
Expiry of Broker Warrants	24 & 26	-	1,134,112	(1,134,112)	-	-	-	-
Bridge financing converted to equity	15	5,973,988	-	-	-	5,973,988	-	5,973,988
Issuance of shares in acquisition	3	69,949,622	-	-	-	69,949,622	-	69,949,622
Settlement of debt with equity	24	832,076	-	-	-	832,076	-	832,076
Purchases of business - initial equity related to non-controlling interests	27	-	-	-	-	-	896,521	896,521
Purchase of remaining non-controlling interests	27	-	(157,252)	-	-	(157,252)	(282,748)	(440,000)
Issuance of warrants		-	-	610,400	-	610,400	-	610,400
Net loss for the period	26	-	-	-	(43,966,736)	(43,966,736)	(556,271)	(44,523,007)
<b>Balance, September 30, 2022</b>		<b>\$ 227,145,189</b>	<b>\$ 15,471,466</b>	<b>\$ 1,709,844</b>	<b>\$ (162,382,419)</b>	<b>\$ 81,944,080</b>	<b>\$ 2,914,967</b>	<b>\$ 84,859,047</b>

The accompanying notes are an integral part of these consolidated financial statements

# STATEHOUSE HOLDINGS INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows  
For the Nine Months Ended September 30, 2022 and 2021  
(Expressed in United States Dollars, except share amounts)

	Note	For the Nine Months Ended	
		September 30, 2022	September 30, 2021
<b>Operating Activities</b>			
Net income (loss) for the period		\$ (44,523,007)	\$ 1,435,517
<b>Adjustments to reconcile net loss to cash flow:</b>			
Share-based compensation	25	3,940,800	510,772
Depreciation and amortization	10, 11 & 12	8,142,431	2,697,285
Changes in fair value less costs to sell of biological asset transformation	6	5,091,617	(643,648)
Fair value gain in other current assets and derivative liabilities	7 & 19	(1,718,744)	(10,500,674)
Loss (gain) on extinguishment of debt		66,486	(128,417)
Provision for expected credit losses	4	1,208,057	341,670
Interest income on notes receivable - related party, note receivable and investments and advances	8 & 29	(262,351)	(452,211)
Lease modification		-	(11,291)
Professional fees classified as financing activities - private placement of equity units		-	607,245
Amortization of other current assets and debt issuance costs		1,360,840	196,900
Accrued interest on lease liabilities	12	2,133,099	667,029
Loss on disposal of property, plant and equipment		154,696	10,059
Loss from sale of business	22	7,535,547	-
Foreign exchange loss		1,028,024	(160,921)
		<u>(15,842,505)</u>	<u>(5,430,685)</u>
Changes in non-cash working capital:			
Accounts receivable, net	4	122,298	256,220
Inventories	5	3,926,346	(1,939,393)
Biological assets	6	(5,120,164)	518,216
Prepaid expenses	7	(1,643,417)	(1,281,743)
Notes receivable	9	(622,024)	-
Due from other entities		(335,641)	-
Deposits and other assets		(921,420)	(51,598)
Accounts payable and accrued liabilities	14	(6,795,303)	(3,172,134)
Due to related parties		-	(144,000)
Excise, cultivation and property tax liabilities	18	3,014,515	-
Income tax payable	23	7,500,703	6,014,553
Provisions	20	(14,932,150)	(3,960,249)
Accrued interest on note payable		214,378	(1,491,912)
Deferred tax liability	23	(1,454,105)	(329,059)
<b>Cash Flows used in Operating Activities</b>		<u>(32,888,489)</u>	<u>(11,011,784)</u>

The accompanying notes are an integral part of these consolidated financial statements

# STATEHOUSE HOLDINGS INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows  
For the Nine Months Ended September 30, 2022 and 2021  
(Expressed in United States Dollars, except share amounts)

	Note	For the Nine Months Ended	
		September 30, 2022	September 30, 2021
<b>Financing Activities</b>			
Net proceeds raised in private offering	24	-	26,990,719
Net proceeds (repayment) from revolving credit facility	16	(12,000,000)	11,751,982
Net proceeds from term loan	17	46,656,342	-
Repayments of notes payable	15	(1,009,905)	(9,710,000)
Payments of principal portion of lease liabilities	12	(3,458,585)	(1,112,632)
Proceeds from exercise of stock options	25	15,883	196,356
<b>Cash Flows provided by Financing Activities</b>		<u>30,203,735</u>	<u>28,116,425</u>
<b>Investing Activities</b>			
Investment in debentures		-	(5,000,000)
Repayment of advance to related party		-	102,674
Advances on note receivable		-	(1,000,000)
Settlement of pre-existing relationship		-	(928,623)
Cash paid to acquire Sublime, net of cash received		-	(374,061)
Cash paid to acquire Accucanna LLC, net of cash received		-	(3,407,722)
Cash paid to acquire Loudpack, net of cash received	3	1,345,259	-
Cash received in Urbn Leaf Acquisition	3	3,268,428	-
Purchases of property, plant and equipment	10	(661,869)	(2,876,712)
<b>Cash Flows provided by (used in) Investing Activities</b>		<u>3,951,818</u>	<u>(13,484,444)</u>
Increase in cash and restricted cash		1,267,064	3,620,197
Effects of foreign exchange on cash and restricted cash		(928,287)	193,664
Cash and restricted cash, beginning of period		<u>9,091,405</u>	<u>10,458,545</u>
<b>Cash and restricted cash, end of period</b>		<u>\$ 9,430,182</u>	<u>\$ 14,272,406</u>
<b>Cash and restricted cash consisted of the following:</b>			
Cash		7,635,392	13,956,021
Restricted cash - interest reserves	16 & 17	1,794,790	316,385
		<u>\$ 9,430,182</u>	<u>\$ 14,272,406</u>
<b>Supplementary Information</b>			
Cash paid during the period for:			
Interest		\$ 3,990,474	\$ 632,682
Income taxes		2,239,634	-
<b>Non-Cash Investing and Financing Activities</b>			
Issuance of warrants to Bank	16 & 26	\$ -	\$ 466,716
Issuance of Broker Warrants	24 & 26	-	1,134,112
Expiry of Broker Warrants	8	(1,134,112)	(460,865)
Conversion of 10% call option in Accucanna LLC	3	-	366,000
Issuance of warrants in Loudpack Acquisition	3	610,400	-
Issuance of shares for the Indebtedness	25	832,076	-
Conversion of Bridge Financing	15	5,973,988	-
Loss on sale of business	22	397,260	-

The accompanying notes are an integral part of these consolidated financial statements



# STATEHOUSE HOLDINGS INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
For the Three and Nine Months Ended September 30, 2022 and 2021  
(Expressed in United States Dollars, except share amounts)

## 1. Nature of Operations

StateHouse Holdings Inc. (formerly Harborside Inc.) ("StateHouse" or the "Company"), through its affiliated entities, is a fully licensed, vertically integrated omni-channel cannabis company, with its business consisting of three primary segments: (i) retail sales, including direct to consumer and delivery, (ii) cultivation, processing and manufacturing, including "white label" production of consumer packaged cannabis products for other cannabis companies, and (iii) wholesale sales, including branded product sales of consumer packaged cannabis products. The Company provides an omni-channel experience to customers in the adult-use and medical markets. 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.

As at September 30, 2022, the Company's retail presence includes the following:

- Four owned and operated Harborside branded retail dispensaries located in Oakland, San Jose, San Leandro and Desert Hot Springs, California;
- Eight owned and operated Urbn Leaf branded retail dispensaries located in San Diego, San Ysidro, Grover Beach, Seaside, La Mesa, Grossmont, San Jose and Vista, California;
- One owned and operated dispensary located in Eugene, Oregon (the "Terpene Station Dispensary");
- 21% interest in FGW Haight Inc. ("FGW"), a company which operates a Harborside branded retail dispensary in the Haight Ashbury area of San Francisco. FGW opened the retail dispensary under the Harborside brand in April 2022; and,
- 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).

As at September 30, 2022, the Company owned and operated a cultivation and production facility in Salinas, California (the "Salinas Production Campus"), a cultivation and manufacturing facility in Greenfield, California (the "Greenfield Production Campus"), and distribution centers in both San Jose and Los Angeles, California.

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

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

On July 25, 2022, the Company completed its name change from "Harborside Inc." to "StateHouse Holdings Inc." (the "Name Change") and completed the reclassification (the "Reclassification") of all of its issued and outstanding SVS to common shares ("Common Shares"). The Name Change was approved by shareholders of the Company at a special meeting 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 upon market open on July 25, 2022, the Common Shares began to trade 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".

The Company's registered office is located at 40 King St. West, Suite 2100, Toronto, Ontario, M5H 3C2, Canada, and the Company's head office is located at 1295 W Morena Blvd., San Diego, California 92110, United States.

# STATEHOUSE HOLDINGS INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
For the Three and Nine Months Ended September 30, 2022 and 2021  
(Expressed in United States Dollars, except share amounts)

## 2. Summary of Significant Accounting Policies

### 2.1 Statement of Compliance and Basis of Measurement

The Company's unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2022, including comparatives, have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting. Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"), have been omitted or condensed. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021, and the related notes thereto, and have been prepared using the same accounting policies described therein.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Company's Board on November 22, 2022.

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

	Previously reported	After reclassification
Accounts payable and accrued liabilities	\$ 23,692,814	\$ 22,391,679
Excise, cultivation and property tax liability	\$ -	\$ 1,301,135
Prepaid expenses	\$ 4,332,566	\$ -
Other current assets	\$ 1,230,655	\$ -
Prepaid expenses and other current assets	\$ -	\$ 5,563,221

### 2.2 Functional Currency

The functional currency of the Company and each of its subsidiaries is the United States ("U.S.") dollar. Unless otherwise indicated, these unaudited condensed interim consolidated financial statements are presented in U.S. dollars (\$ or "USD"). All references to "C\$" or "CAD" pertain to Canadian dollars.

### 2.3 Basis of Consolidation

These unaudited condensed interim consolidated financial statements incorporate the accounts of the Company and its wholly-owned subsidiaries as follows:

Name	Jurisdiction	Purpose	Percentage	Percentage
			Owned (%)	Owned (%)
			September	December 31,
			30, 2022	2021
Statehouse Holdings Inc. (formerly Harborside Inc.)	Ontario, Canada	Parent	100	100
658 East San Ysidro Blvd LLC	California, U.S.	Real Estate Holding Company	100	-
680 Broadway Master, LLC	California, U.S.	Operating Company	100	-
909 West Vista Way LLC	California, U.S.	Real Estate Holding Company	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	-
Banana LLC	California, U.S.	Operating Company	75	-
Belling Distribution, Inc.	California, U.S.	Operating Company	100	-

# STATEHOUSE HOLDINGS INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
For the Three and Nine Months Ended September 30, 2022 and 2021  
(Expressed in United States Dollars, except share amounts)

## 2. Summary of Significant Accounting Policies (continued)

### 2.3 Basis of Consolidation (continued)

Name	Jurisdiction	Purpose	Percentage	Percentage
			Owned (%)	Owned (%)
			September	December 31,
			30, 2022	2021
Benmore LPFN, LLC	Delaware, U.S.	Holding Company	100	-
Calgen Trading Inc.	California, U.S.	Operating Company	100	-
CDRS Investor LLC	California, U.S.	Holding Company	100	-
CDRS Owner LLC	Delaware, U.S.	Holding Company	100	-
Encinal Productions RE, LLC	California, U.S.	Operating Company	100	100
Evergreen LPFN, LLC	Delaware, U.S.	Holding Company	100	-
FFC1, LLC	California, U.S.	Holding Company	100	100
FGW Haight Inc.	California, U.S.	Operating Company	21	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
Gilded Creek Partners Inc.	California, U.S.	Holding Company	100	-
Greenfield Organix, Inc.	California, U.S.	Operating Company	100	-
Greenfield Prop Owner, LLC	Delaware, U.S.	Real Estate Holding Company	100	-
Greenfield Prop Owner II, LLC	Delaware, U.S.	Real Estate Holding Company	100	-
Haight Acquisition Corporation	Delaware, U.S.	Holding Company	100	100
JLM Investment Group, LLC	California, U.S.	Holding Company	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	Delaware, U.S.	Holding Company	100	-
LPF Bellflower, LLC	Delaware, U.S.	Holding Company	100	-
LPF Consulting Group, LLC	California, U.S.	Holding Company	100	-
LPF Michigan LLC	Delaware, U.S.	Holding Company	100	-
LPF Ohio, LLC	Delaware, U.S.	Holding Company	100	-
LPF RE Manager, LLC	California, U.S.	Management Company	100	-
LP-KP IP Holdings, LLC	California, U.S.	Holding Company	100	-
Lunar Management, LLC	New York, U.S.	Holding Company	100	-
Oakland Machining Supply SLB LLC	California, U.S.	Holding Company	100	100
Ocean Ranch LPFN, LLC	Delaware, U.S.	Holding Company	100	-
Patients Mutual Assistance Collective Corporation	California, U.S.	Operating Company	100	100
Redhunt Corporation	California, U.S.	Holding Company	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	-
Sublime Machining Inc.	California, U.S.	Operating Company	-	100
Sublimation Inc.	Delaware, U.S.	Holding Company	100	100
ULBP Inc.	California, U.S.	Operating Company	100	-

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## 2. Summary of Significant Accounting Policies (continued)

### 2.3 Basis of Consolidation (continued)

Name	Jurisdiction	Purpose	Percentage	Percentage
			Owned (%)	Owned (%)
			September	December 31,
			30, 2022	2021
ULRB LLC	California, U.S.	Operating Company	80	-
UL Benicia LLC	California, U.S.	Operating Company	70	-
UL Chula Two LLC	California, U.S.	Operating Company	51	-
UL Holdings Inc.	California, U.S.	Holding Company	100	-
UL Kenamar LLC	California, U.S.	Operating Company	100	-
UL La Mesa LLC	California, U.S.	Operating Company	60	-
UL Management LLC	California, U.S.	Management Company	100	-
UL San Jose LLC	California, U.S.	Operating Company	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	-
Uprooted LM LLC	California, U.S.	Operating Company	100	-

The unaudited condensed interim consolidated financial statements as at September 30, 2022 and December 31, 2021 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). Entities over which the Company has control are presented on a consolidated basis from the date control commences. Control, as defined by IFRS 10 for purposes of determining the consolidated basis of financial statement presentation exists when the Company is exposed to, or has right to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. All of the consolidated entities were under control, as defined in IFRS 10 for purposes of determining the consolidated basis of financial statement presentation, during the entirety of the periods for which their respective results of operations were included in the consolidated statements. The unaudited condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries that it controls after eliminating intercompany balances and transactions.

### 2.4 COVID-19 Estimation Uncertainty

The global pandemic outbreak of the novel strain of coronavirus ("COVID-19") has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. In response to the outbreak, governmental authorities in the United States, Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place and social distancing. For the time being and until economies stabilize, the Company has shifted its strategic approach and the manner in which it operates its business to continue providing affordable and high-quality products to its customers and ensure that its workplace and stores comply with any applicable safety regulations which may be required. At the same time, the Company has also taken steps to alter its marketing methods, conserve cash and adjust its overall strategic direction to preserve the health of its business. COVID-19 has cast uncertainty on the assumptions used by management in making its judgments and estimates. At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations and financial condition.

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## 2. Summary of Significant Accounting Policies (continued)

### 2.5 Summary of Significant Accounting Policies

The Company completed two business combinations during the nine months ended September 30, 2022. The acquisition of UL Holdings Inc. ("Urbn Leaf") closed on March 1, 2022 and the acquisition of LPF JV Corporation ("Loudpack") closed on April 4, 2022. Both acquisitions were accounted for in accordance with IFRS 3, *Business Combinations* ("IFRS 3") (Note 3). Except as described below, the accounting policies applied in the preparation of the unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2021.

### 2.6 Due From Other Entities

Due from other entities represents balances for pre-operating entities for which the Company is expecting to acquire future interests. The Company, through its affiliated entities, manages pre-operating costs for other entities which include permitting fees, license applications, leasehold improvements and other charges for future retail, manufacturing, production and cultivation operating entities. Those expenses are held as due from the respective operating entity.

### 2.7 Excise, cultivation and property tax liabilities

The Company's distribution of wholesale cannabis products to other licensed retailers in the state of California creates the obligation to collect excise tax from those retailers. The Company was also obligated to remit cultivation taxes which were collected from cultivators. If the products purchased from cultivators were sold to another manufacturer or distributor, the cultivation tax was passed to that manufacturer or distributor. If the cultivation products were consumed by the Company in the process of manufacturing or distribution, the Company was obligated to remit the cultivation tax when the manufactured products produced were sold. In instances in which the Company cultivates its own products which are then consumed in the manufacturing process, the Company was obligated to remit the cultivation tax when the manufactured products are sold. Effective July 1, 2022, the state of California eliminated the cannabis cultivation tax.

### 2.8 Revenue Recognition

#### *Loyalty Rewards Program*

The Company's Urbn Leaf branded retail dispensaries offer a loyalty rewards program to retail customers which allows them to earn reward points to be used for future purchases of goods at a discount from the stand-alone selling price of a product. This program provides retail customers with a material right which is accounted for as a separate performance obligation.

Based on the stand-alone selling price allocation, management allocates a portion of the gross sales revenue generated to the material right. As the points are redeemed, a proportionate amount of the material right is recognized as revenue and at each reporting date the amount of the material right represented by the unredeemed points is carried forward as a liability until points are redeemed.

As at September 30, 2022, the Company had a loyalty program liability of \$2,580,207, which is recorded as a component of accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

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## 2. Summary of Significant Accounting Policies (continued)

### 2.9 Assets Held for Sale

The Company classifies assets held for sale in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations* ("IFRS 5"). When the Company makes the decision to sell an asset or to stop some part of its business, the Company assesses if such assets should be classified as an asset held for sale. To classify as an asset held for sale, the asset or disposal group must meet all of the following conditions: i) the asset is available for immediate sale in its present condition, ii) management is committed to a plan to sell, iii) an active program to locate a buyer and complete the plan has been initiated, iv) the asset is being actively marketed for sale at a sales price that is reasonable in relation to its fair value, v) the sale is highly probable within one year from the date of classification, and vi) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn. An asset held for sale is measured at the lower of its carrying amount or fair value less cost to sell ("FVLCS") unless the asset held for sale meets the exceptions as denoted by IFRS 5. FVLCS is the amount obtainable from the sale of the asset in an arm's length transaction, less the costs of disposal. Once classified as held for sale, any depreciation and amortization cease to be recorded.

### 2.10 Financial Instruments

The Company classifies and measures financial instruments in accordance with IFRS 9, *Financial Instruments* ("IFRS 9"). On initial recognition, a financial asset is classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI"), or amortized cost. Purchases and sales of financial assets are recorded on a settlement date basis.

Subsequent to initial recognition, all investments are measured at fair value. All gains and losses arising from changes in fair value of the investments are presented in the Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in the period in which the gains or losses arise. The Company will only reclassify a financial asset when the Company changes its business model for managing the financial asset. All reclassifications are recorded at fair value at the date of reclassification, which becomes the new carrying value.

#### *i. Financial assets classified at FVTPL*

Financial assets are classified as FVTPL if the asset is an equity investment, if the Company has not elected to classify investments as FVTOCI, or if the Company's business model for holding the investment is achieved other than by collecting contractual cash flows and by selling the assets. As at September 30, 2022 and December 31, 2021, the Company did not have any financial assets at FVTOCI.

FVTPL assets are initially recorded at fair value with realized gains and losses on disposition and subsequent changes in fair value recorded in net income (loss). Directly attributable transaction costs are recorded in net income (loss) as incurred.

#### *ii. Non-derivative financial liabilities*

Non-derivative financial liabilities are recognized initially on the date the Company becomes a party to the contractual obligations of the financial instrument. All non-derivative financial liabilities are recognized initially at fair value along with directly attributable transaction costs. Subsequent to initial measurement, non-derivative financial liabilities are measured at amortized cost using the effective interest method.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
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## 2. Summary of Significant Accounting Policies (continued)

### 2.10 Financial Instruments (continued)

#### *iii. Derivative financial instruments - warrants and options*

A financial derivative, such as warrants or options, which will be settled with the Company's common shares is classified as an equity instrument if the derivative is to acquire a fixed number of the Company's own equity instruments for a fixed amount of U.S. dollars.

A financial derivative is considered a financial liability at FVTPL if it is used to acquire a variable number of common shares and the options or warrants were not offered pro-rata to all existing owners of the class of non-derivative equity instruments.

The following table presents the Company's classification of financial assets and financial liabilities as at September 30, 2022:

<b>Financial assets/financial liabilities</b>	<b>Classification</b>
Cash and restricted cash	Amortized cost
Accounts receivable, net	Amortized cost
Prepaid expenses	Amortized cost
Other current assets	FVTPL
Investments and advances	FVTPL
Deposits and other assets	Amortized cost
Due from other entities	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Notes payable, net	Amortized cost
Term loan, net	Amortized cost
Excise, cultivation and property tax liabilities	Amortized cost
Derivative liabilities	FVTPL

The Company recognizes a provision for expected credit losses on financial assets that are measured at amortized cost. The Company assumes that the credit risk on a financial asset has increased if it is more than 60 days past due. The Company considers a financial asset to be impaired either when the financial asset is more than 90 days past due, or it is determined that the borrower is unlikely to pay its credit obligations to the Company in full.

The carrying amount of a financial asset is reduced (either partially or in full) if management determines that there is no realistic prospect of recovery. This is generally the case when the Company concludes that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay amounts owed.

The Company assesses information available including, on a forward-looking basis, the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available and reasonable and supportive forward-looking information. For accounts receivable only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, from the dates of the trade receivables, the Company recognizes a loss provision based on lifetime expected credit losses at each reporting date.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
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## 2. Summary of Significant Accounting Policies (continued)

### 2.10 Financial Instruments (continued)

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

### 2.11 Critical Accounting Estimates and Judgments

The preparation of these unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting 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 unaudited condensed interim consolidated financial statements are described below.

#### *Business combination*

In a business acquisition, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at their respective fair values at the acquisition date. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree - the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. Management exercises judgment in considering all pertinent facts and circumstances in identifying the acquisition date.

The Company examines three elements to determine whether control exists. When these three elements of control are present, then an investor is considered to control an investee and consolidation is required. When one or more of the elements is not present, an investor will not consolidate but instead be required to determine the nature of its relationship with the investee. The Company exercises its judgment when determining control over an investee, when it has all of the following attributes: power over the investee, such as the ability to direct relevant activities of the investee; exposure, or rights, to variable returns from its involvement with the investee, such as returns that are not fixed and have the potential to vary with performance of the investee; and the ability to use its power over the investee to affect the amount of the investor's returns, such as identifying the link between power and returns.

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or an asset acquisition can have a significant impact on the entries made at and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.



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## 2. Summary of Significant Accounting Policies (continued)

### 2.11 Critical Accounting Estimates and Judgments (continued)

#### *Business combination (continued)*

Management exercises judgment in estimating the probability and timing of when contingent securities are expected to be issued which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied. Purchase consideration also includes consideration of any pre-existing relationships that are effectively settled at their fair values due to the acquisition.

#### *Fair value of biological assets and 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.

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 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 instances 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.

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## 2. Summary of Significant Accounting Policies (continued)

### 2.11 Critical Accounting Estimates and Judgments (continued)

#### *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 considers 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 they might be impaired. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts which considers 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 higher 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 as a loss for the amount by which the carrying amount of the asset exceeds the recoverable amount.

#### *Goodwill impairment*

When determining the recoverable amount of the CGU or CGUs to which goodwill is allocated, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in these judgments and estimates can significantly affect the estimated recoverable amount.

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

IFRS 16 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 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 change locations.

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## 2. Summary of Significant Accounting Policies (continued)

### 2.11 Critical Accounting Estimates and Judgments (continued)

#### *Share-based payment arrangements*

The Company measures the cost of equity-settled grants 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 of share-based grants requires determining the most appropriate valuation model, which depends 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 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 Company's Common Shares and in response to 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 warrants denominated and exercisable in a currency 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 Company's 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 unaudited condensed interim 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. The 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 a 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, 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.

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## 2. Summary of Significant Accounting Policies (continued)

### 2.11 Critical Accounting Estimates and Judgments (continued)

#### *Provisions*

The Company recognizes provisions if there is a present obligation (legal or constructive) that has arisen as the 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, 2022 and December 31, 2021 relates to uncertain tax positions under Internal Revenue Code ("IRC") §280E for Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness Solutions Corp. ("SJW"). 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 and, although the Company strongly disagrees with the positions taken by the Internal Revenue Service 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 subject to statutory review. On July 28, 2022, the Company entered into a partial payment and installment agreement with the Internal Revenue Service ("IRS") in relation to a portion of the uncertain tax positions for PMACC (Note 20). The amount recognized as a provision reflects the obligations due under the partial payment and installment 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 the 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 September 30, 2022.

On September 30, 2022, the Company entered into a non-binding term sheet with Pelorus Equity Group to upsize its existing Term Loan by \$12,000,000 (the "Upsized Term Loan"). Assuming the financing closes, the proceeds will be used primarily to refinance the Senior Secured Debt (Note 15) and pay down other obligations included within accounts payable and accrued liabilities. With this additional capital, management believes there is sufficient capital to meet the Company's business obligations for at least the next twelve months, after considering expected cash flows and the Company's cash position at period-end.

As indicated in Note 20, the Company has recognized a provision for particular uncertain tax positions which are related to PMACC and SJW. The Company has entered into a partial payment and installment agreement with the IRS for a portion of the uncertain tax position related to PMACC. The Company will be resolving the uncertain tax position through monthly installment payments of \$50,000 beginning August 1, 2022 (Note 20).

Outside of the partial payment and installment 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 that these unaudited condensed interim consolidated financial statements were authorized to be issued. The Company believes it will have funds in the future to satisfy any such required cash outflows from its operations and other sources of financing. However, it is possible that the Company will need to obtain additional capital to meet these uncertain cash flow requirements and there is no assurance that such capital will be available or available on favorable terms. The final amount to be paid for all uncertain tax positions is uncertain.

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## 2. Summary of Significant Accounting Policies (continued)

### 2.11 Critical Accounting Estimates and Judgments (continued)

*Going concern (continued)*

Management continues to monitor the Company's operational performance, progress of the tax litigation and appeals process, and its ability to raise funds.

These unaudited condensed interim consolidated financial statements do not reflect adjustments to the reported carrying values of assets and liabilities; reported revenues and expenses; or, classifications in the Unaudited Condensed Interim Consolidated Statements of Financial Position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations.

### 2.12 Adoption of New Accounting Policies

The Company adopted the following standard effective January 1, 2022. These changes were made in accordance with the applicable transitional provisions.

*IAS 41 Agriculture*

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IAS 41. The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flow when measuring fair value of a biological assets using a present value technique. This will ensure consistency with the requirements in IFRS 13. The amendment is effective for annual periods beginning on or after January 1, 2022. The adoption of the standard did not have a material impact on the Company's unaudited condensed interim consolidated financial statements.

### 2.13 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 herein.

The Company is currently assessing the impact that adopting the new standards or amendments will have on its unaudited condensed interim 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*

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, 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. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023 (extended from January 1, 2022), with earlier application permitted.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 2. Summary of Significant Accounting Policies (continued)

#### 2.13 New, Amended, and Future IFRS Pronouncements (continued)

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

In February 2021, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, and IFRS Practice Statement 2, *Making Materiality Judgments*. The amendments help entities provide accounting policy disclosures that are 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 disclosures.

The amendments shall be applied prospectively. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

##### *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment)*

In February 2021, the IASB issued amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The 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 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

##### *IAS 12 Income Taxes (Amendment)*

In May 2021, the IASB issued amendments to the recognition exemptions under IAS 12, *Income Taxes*. The 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 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

### 3. Business Combinations

The Company completed two business combinations during the nine months ended September 30, 2022. The Urbn Leaf Acquisition (as defined below) and the Loudpack Acquisition (as defined below) were each accounted for in accordance with IFRS 3. Due to the complexity associated with the valuation process and the short period of time between the acquisition date and the period end, the identification and measurement of assets acquired, and liabilities assumed, as well as the measurement of consideration is provisional and subject to adjustment on completion of the valuation process and analysis of resulting tax effects. Management is required to finalize the accounting for acquisitions no later than one year from the date of the respective acquisition date and will reflect these adjustments retrospectively as required under IFRS 3. Differences between these provisional estimates and the final acquisition accounting may occur and these differences could have a material impact on the Company's future financial position and results of operations.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
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## 3. Business Combinations (continued)

A provisional estimate of the fair value of the assets to be acquired and the liabilities to be assumed by the Company in connection with the acquisitions was as follows:

	<b>Urbn Leaf Acquisition</b>	<b>Loudpack Acquisition</b>
	March 1, 2022	April 4, 2022
Acquisition date		
Fair value of:		
Share capital issued	\$ 26,283,514	\$ 42,517,795
Warrants issued	-	610,400
Cash consideration	-	1,225,000
Settlement of note payable	1,109,233	-
Settlement of convertible debenture	-	3,173,471
Receivables and payables assumed	<u>443,451</u>	<u>439,244</u>
Total purchase consideration	<u>\$ 27,836,198</u>	<u>\$ 47,965,910</u>
Purchase consideration paid	\$ 27,836,198	\$ 47,965,910
Fair value of net assets acquired:		
Cash and restricted cash	3,268,427	2,570,270
Accounts receivable, net	70,702	5,658,902
Inventory	2,061,304	9,274,589
Biological assets (Note 6)	-	101,543
Due from other entities	474,028	-
Note receivable (Note 9)	1,140,901	-
Prepaid expense and other current assets	875,975	577,434
Property, plant and equipment, net (Note 10)	23,676,515	57,439,850
Right-of-use assets (Note 12)	16,418,786	1,353,489
Intangible assets (Note 11)	8,310,000	3,375,189
Deposits and other assets	724,925	308,465
Accounts payable and accrued liabilities	(14,022,719)	(18,023,456)
Lease liabilities (Note 12)	(26,230,741)	(1,850,962)
Deferred tax liability	(2,479,704)	-
Income taxes payable	(10,060,651)	(597,905)
Term loan, net	(13,005,439)	(15,620,538)
Notes payable	(14,767,571)	(25,910,587)
Excise, cultivation and property taxes	<u>-</u>	<u>(25,955,925)</u>
Total identifiable net assets acquired	(23,545,262)	(7,299,642)
Goodwill (Note 11)	52,277,981	55,265,552
Non-controlling interests acquired (Note 27)	<u>(896,521)</u>	<u>-</u>
Net assets acquired	<u>\$ 27,836,198</u>	<u>\$ 47,965,910</u>

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
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## 3. Business Combinations (continued)

Goodwill arising from acquisitions consist largely of the synergies and economies of scale expected from combining the operations of the businesses. These synergies include the use of the Company's existing infrastructure to expand operations, sales and profits as well as eliminations of redundant facilities and functions. None of the goodwill recognized is expected to be deductible for tax purposes.

### *The Urbn Leaf Acquisition*

Urbn Leaf is a leading California cannabis retailer that owns and operates eight retail dispensaries in California, located in San Diego, San Ysidro, La Mesa, Grossmont, Vista, Grover Beach, Seaside and San Jose. Urbn Leaf also operates retail delivery services that cover the Grover Beach and San Ysidro areas from its Urbn Leaf branded retail dispensaries. The Company opened the Urbn Leaf branded retail dispensary in Grossmont in April 2022.

On March 1, 2022, pursuant to the terms of the definitive agreement announced on November 29, 2021, the Company acquired 100% of the equity interests of Urbn Leaf (the "Urbn Leaf Acquisition") for a total purchase consideration of (a) the issuance of 60,000,000 SVS, valued at approximately \$26,284,000, (b) the settlement of the principal and accrued interest of an unsecured promissory note valued at approximately \$1,100,000, and (c) approximately \$444,000 for the settlement of receivables and payables from the pre-existing relationship between the companies.

The fair value of the non-controlling interest assumed was \$896,521. The fair value was estimated using a market approach based on the proportionate share of revenues acquired for the non-controlling interest, the implied number of shares issued and a 45% discount for lack of marketability.

In connection with the Urbn Leaf Acquisition, the Company granted certain officers of the Company (i) options to purchase an aggregate of 5,758,797 SVS and (ii) restricted share units ("RSUs") representing the right to receive up to an aggregate of 912,599 SVS, subject to the satisfaction of certain vesting conditions. Each option is exercisable to acquire one SVS at an exercise price of C\$0.70 per SVS for a period of five years following the date of grant, in accordance with the terms of its A&R Plan (as defined in Note 25).

As a result of the Reclassification, all options and RSUs issued pursuant to the Urbn Leaf Acquisition are now exercisable or represent the right to acquire, as applicable, Common Shares.

Acquisition-related costs of approximately \$1,464,000 were included as a component of M&A and transactional expenses in the accompanying Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). A portion of the professional fees were settled with shares (Note 24).

### *The Loudpack Acquisition*

Loudpack is a leading manufacturer, cultivator and distributor of award-winning cannabis brands in California. Loudpack owns and operates a facility in Greenfield, California which includes light deprivation greenhouse cultivation, manufacturing and processing along with distribution, storage and office space.

On April 4, 2022, pursuant to the terms of the definitive agreement announced on November 29, 2021, the Company acquired 100% of the equity interests of Loudpack (the "Loudpack Acquisition") for a total purchase consideration of (a) the issuance of 90,752,140 SVS, valued at approximately \$42,518,000, (b) the issuance of 2,000,000 warrants, valued at approximately \$610,000, (c) cash consideration of approximately \$1,225,000, (d) the settlement of the convertible debenture valued at approximately \$3,173,000 and (e) approximately \$439,000 for the settlement of receivables and payables from the pre-existing relationship between the companies. In addition, the Company paid approximately \$3,764,000 of acquisition-related costs on behalf of Loudpack. As a result of the Reclassification, all SVS issued pursuant to the Loudpack Acquisition have been reclassified as Common Shares.



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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 3. Business Combinations (continued)

#### *The Loudpack Acquisition (continued)*

The warrants issued were exercisable to purchase SVS at a price of \$2.50 per SVS, anytime within five years of the closing date. The Company has the option to accelerate the expiration date of the warrants in the event that the volume weighted average trading price of the SVS is equal to or greater than \$5.00.

As a result of the Reclassification, all warrants issued pursuant to the Loudpack Acquisition are now exercisable into Common Shares.

Acquisition-related costs of approximately \$5,357,000 were included as a component of M&A and transactional expenses in the accompanying Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). A portion of the professional fees were settled with shares (Note 24).

#### *The Sublime Acquisition*

On July 2, 2021, the Company acquired 100% of the issued and outstanding shares of Sublimation Inc. ("Sublime") (the "Sublime Acquisition"), for total purchase consideration of approximately \$44,700,000 (see to Note 3 of the audited consolidated financial statements for the year ended December 31, 2021). On January 24, 2022, the Company determined that the working capital surplus amounted to approximately \$2,085,000 representing 11,289.57 MVS. As a result of the Mandatory Conversion and Reclassification, all MVS issued pursuant to the Sublime Acquisition were converted to SVS on the basis of 100 SVS for each MVS held and subsequently reclassified as Common Shares (Note 24).

### 4. Accounts receivable, net

The Company's accounts receivable, net was comprised of the following as at September 30, 2022 and December 31, 2021:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Trade receivables	\$ 10,616,435	\$ 5,110,877
Sales tax receivables	15,988	53,301
Total	10,632,423	5,164,178
Provision for credit loss	(1,688,537)	(617,821)
Total accounts receivable, net	<u>\$ 8,943,886</u>	<u>\$ 4,546,357</u>

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for expected credit losses.

The Company provides trade credit to its wholesale, white label and distribution customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for these customers is assessed on a quarterly basis and a provision for expected credit losses is recorded where required. The Company does not offer extended payment terms to its retail customers. Retail transactions are paid for at the point of sale. Accordingly, credit risk from retail customers is limited to outstanding balances due from debit card processors. As at September 30, 2022 and December 31, 2021, there was \$141,689 and \$156,226, respectively, outstanding from debit card processors that is included in trade receivables.

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 4. Accounts receivable, net (continued)

The Company assesses the risk of collectability of accounts receivable on a quarterly basis. Estimates of expected credit losses take into account the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses through the use of a provision for expected credit losses. The provision for expected credit losses reflects the Company's best estimate of probable losses in the trade receivables accounts.

Activity in the provision for expected credit losses was as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Balance, beginning of period	\$ 617,821	\$ 242,721
Provision for expected credit losses assumed in acquisitions	749,553	277,224
Current year additions to provision for expected credit losses	933,537	499,157
Amounts reversed	<u>(612,374)</u>	<u>(401,281)</u>
Balance, end of period	<u>\$ 1,688,537</u>	<u>\$ 617,821</u>

The Company's aging of accounts receivable was as follows as at September 30, 2022 and December 31, 2021:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Current	\$ 41,198	\$ 2,132,748
1 - 30 days	3,326,883	1,033,575
31 - 60 days	2,190,858	812,801
61 - 90 days	1,072,927	396,747
Over 90 days	<u>4,000,557</u>	<u>788,307</u>
Total	<u>\$ 10,632,423</u>	<u>\$ 5,164,178</u>

### 5. Inventories

The Company's inventory includes both purchased items and internally produced inventory. The Company's inventory was comprised of the following items as at September 30, 2022 and December 31, 2021:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Raw materials	\$ 1,483,181	\$ 1,633,803
Work-in-process	5,575,173	1,075,499
Finished goods	<u>6,691,712</u>	<u>3,704,848</u>
Total	<u>\$ 13,750,066</u>	<u>\$ 6,414,150</u>

During the three and nine months ended September 30, 2022, inventory expensed to cost of goods sold was approximately \$13,037,000 and \$38,666,000, respectively. During the three and nine months ended September 30, 2021, inventory expensed to cost of goods sold was approximately \$11,379,000 and \$29,130,000, respectively. Management determined net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to complete a sale.

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 5. Inventories (continued)

There was no impairment recorded during the three and nine months ended September 30, 2022. During the three and nine months ended September 30, 2021, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of \$457,969 and \$1,189,074, respectively, which was recorded as a component of costs of goods sold.

### 6. Biological Assets

Biological assets consist of cannabis plants. The Company operates two facilities, the Salinas Production Campus and the Greenfield Production Campus. The Greenfield Production Campus was acquired as part of the Loudpack Acquisition (Note 3). The changes in the carrying value of biological assets was as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Balance, beginning of period	\$ 443,839	\$ 1,321,069
Acquired as part of Loudpack Acquisition (Note 3)	101,543	-
Costs capitalized	10,440,022	9,671,956
Changes in fair value less costs to sell due to biological asset transformation	(5,091,617)	(3,845,228)
Transferred to inventory upon harvest	<u>(5,319,858)</u>	<u>(6,703,958)</u>
Balance, end of period	<u>\$ 573,929</u>	<u>\$ 443,839</u>

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and the expected selling price less costs to sell per gram.

The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest. The following inputs and assumptions are all categorized within Level 3 on the fair value hierarchy and were used in determining the fair value of biological assets:

<u>Inputs and assumptions</u>	<u>Description</u>	<u>Correlation between inputs and fair value</u>
Average selling price per gram	Represents the average selling price per gram of dried cannabis net of excise taxes, where applicable, for the period for all strains of cannabis sold, which is expected to approximate future selling prices.	If the average selling price per gram was higher (lower), estimated fair value would increase (decrease).
Average attrition rate	Represents the weighted average number of plants culled at each stage of production.	If the average attrition rate was lower (higher) estimated fair value would increase (decrease).
Weighted average yield per plant	Represents the weighted average number of grams of dried cannabis inventory expected to be harvested from each cannabis plant.	If the weighted average yield per plant was higher (lower), estimated fair value would increase (decrease).
Standard cost per gram to complete production	Based on actual production costs incurred divided by grams produced in the period.	If the standard cost per gram to complete production was lower (higher), estimated fair value would increase (decrease).
Weighted average effective yield	Represents the estimated percentage of harvested product that meets specifications in order to be sold as a dried cannabis product.	If the weighted average effective yield was higher (lower), the estimated fair value would increase (decrease).
Stage of completion in production process	Calculated by taking the weighted average number of days in production over a total average grow cycle of approximately thirteen weeks.	If the number of days in production was higher (lower), estimated fair value would increase (decrease).

Biological assets as at September 30, 2022 and December 31, 2021 include an allocation of depreciation of \$213,958 and \$270,484, respectively.

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 6. Biological Assets (continued)

The following table quantifies each significant unobservable input, and provides the impact that a 10% increase or decrease in each input would have on the fair value of biological assets at the Salinas Production Campus:

	Assumptions:	As at September 30, 2022		As at December 31, 2021	
		Input	10% change	Input	10% change
i	Weighted average of expected loss of plants until harvest [a]	5%	\$ 2,928	3%	\$ 1,529
ii	Expected yields (dry grams of cannabis per plant) [b]	73 grams	\$ 54,970	52 grams	\$ 44,454
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	50%	\$ 54,970	58%	\$ 44,454
iv	Estimated selling price (per gram) [c]	\$0.58 per gram dried flower \$0.04 per gram dried trim	\$ 94,689	\$1.25 per gram dried flower \$0.14 per gram dried trim	\$ 171,702
v	After harvest cost to complete and sell (per gram)	\$0.24 per gram dried flower \$0.02 per gram dried trim	\$ 39,719	\$0.88 per gram dried flower \$0.14 per gram dried trim	\$ 127,249

The following table quantifies each significant unobservable input, and provides the impact that a 10% increase or decrease in each input would have on the fair value of biological assets at the Greenfield Production Campus:

	Assumptions:	As at September 30, 2022	
		Input	10% change
i	Weighted average of expected loss of plants until harvest [a]	12%	\$ 298
ii	Expected yields (dry grams of cannabis per plant) [b]	65 grams	\$ 2,186
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	21%	\$ 2,186
iv	Estimated selling price (per gram) [c]	\$0.49 per gram dried flower \$0.04 per gram dried trim	\$ 4,141
v	After harvest cost to complete and sell (per gram)	\$0.23 per gram dried flower \$0.02 per gram dried trim	\$ 1,955

[a] Weighted average of expected loss of plants until harvest represents loss from plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

[b] Expected average yields for cannabis plants vary based on the mix of strains and number of plants existing at each reporting date. As at September 30, 2022 and December 31, 2021, it was expected the Company's biological assets would yield 61 and 21 grams of dried flower per plant, respectively, and 77 and 31 grams of dried trim per plant, respectively.

[c] The estimated selling price (per gram) represents the actual average sales price for the Company's strains sold as bulk products.

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 6. Biological Assets (continued)

The Company estimates the harvest yields for cannabis at various stages of growth. As at September 30, 2022 and December 31, 2021, it is expected that the Company's biological assets will yield approximately 3,339,755 and 2,031,834 grams of dry cannabis flower, respectively, and 4,482,353 and 3,080,842 grams of dry trim, respectively, when harvested. The fair value adjustments on biological assets are presented separately in the Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

### 7. Prepaid Expenses and Other Current Assets

On August 1, 2021, the Company entered into a prepayment of inventory agreement with Loudpack for \$1,500,000 of goods at wholesale cost. Under the terms of the agreement, the Company received a minimum discount of 10% on all purchases from Loudpack. The prepayment of inventory was applied as purchase consideration in the Loudpack Acquisition (Note 3).

As at September 30, 2022 and December 31, 2021, prepaid expenses and other current assets were comprised of the following:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Excise taxes	\$ 1,916,089	\$ 467,844
Insurance and rent	2,874,733	986,549
Advances made to suppliers and consultants	1,378,814	1,872,237
Payroll and income taxes	65,826	509,304
Taxes and fees	249,184	11,249
Licenses and other	<u>1,104,372</u>	<u>485,383</u>
Total prepaid expenses	7,589,018	4,332,566
Conversion option embedded in the FGW Note	<u>1,662,731</u>	<u>1,230,655</u>
Total prepaid expenses and other current assets	<u>\$ 9,251,749</u>	<u>\$ 5,563,221</u>

On December 18, 2020, the Company entered into a securities purchase agreement (the "FGW Agreement") pursuant to which the Company acquired an initial ownership interest of 21% in FGW and the right to acquire an additional 29.1% interest (the "FGW Transaction"). Upon closing of the FGW Transaction, FGW issued the Company a convertible note, in the principal amount of \$1,265,000 (the "FGW Note") (refer to Note 3 of the audited consolidated financial statements for the year ended December 31, 2021). On February 15, 2022, the Company entered into the Subsequent FGW Agreement, whereby a further 29.9% interest in FGW would be acquired, subject to certain material closing conditions, including approvals from regulatory authorities. The acquisition of the subsequent shares will increase the Company's interest in FGW to 80%. The Company retains the right of first refusal to purchase, in its discretion, in whole or in part and in one or more closings, the remaining 20% of FGW, subject to regulatory approvals.

As at September 30, 2022 and December 31, 2021, the Company used the Monte Carlo Simulation option-pricing model ("Monte Carlo model") to estimate the fair value of the conversion option embedded in the FGW Note. The \$432,076 change in fair value for the nine months ended September 30, 2022 is included as a component of fair value gain in other current assets and derivative liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

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## 8. Investments and Advances

The changes in investments and advances were as follows for the nine months ended September 30, 2022:

	<b>Investments FVTPL</b>
Balance as at December 31, 2021	\$ 2,458,011
Conversion of investment with acquisition	(3,173,471)
Interest accrued	199,110
Changes in fair value	<u>516,350</u>
Balance as at September 30, 2022	<u>\$ -</u>

### *Convertible Debentures*

On March 5, 2021, the Company, through one of its subsidiaries, purchased \$5,000,000 of 15% Senior Secured Convertible Debentures (the "Debentures") of Loudpack with an original maturity date of December 31, 2022. The Debentures bore interest at the rate of 15% and were secured by first and second priority liens on assets of Loudpack and its subsidiaries, as well as joint and several guarantees provided by direct and indirect subsidiaries of Loudpack and certain of its members. Prior to maturity, the Debentures were subject to both optional and mandatory conversion features as well as an optional redemption feature and additional restrictions imposed upon Loudpack pertaining to the ultimate use of the proceeds received by Loudpack. The Debentures were also subject to an optional conversion feature at maturity.

On April 4, 2022, the Company completed the Loudpack Acquisition (Note 3). Upon closing of the Loudpack Acquisition, the Debentures were converted into 2,932,388 Class B Units issued by each of LPF Waterfall I, LLC and LPF Waterfall II, LLC (together the "Waterfall Subs"), representing approximately 7.9176% of the class within each of the Waterfall Subs. In addition, 1,820,306 SVS were registered to the Company at the close of the Loudpack Acquisition as part of the allocation of shares registered to holders of the Debentures. The SVS (now reclassified as Common Shares) are to be held in escrow subject to specified lockup periods and post-closing escrow calculations. The lockups fully expire 18 months after closing of the Loudpack Acquisition, at which time any SVS which would be released to the Company will instead be returned to treasury for cancellation. The Debentures were included in the purchase consideration associated with the Loudpack Acquisition (Note 3). Effective July 25, 2022, the Company completed the Reclassification of its SVS to Common Shares.

## 9. Notes Receivable

On April 16, 2021, Urbn Leaf entered into a membership interest repurchase agreement to sell back its 33.3% membership interest in 2220 NBC, LLC for \$1,150,000. The note receivable was assumed as part of the Urbn Leaf Acquisition (Note 3). The note receivable accrues interest at a rate of 10% per annum on the outstanding daily unpaid principal amount. Initial payments began on January 1, 2022. Payments are to be made following a five-year amortization schedule of equal monthly payments following the initial payment date. As at September 30, 2022, principal and accrued interest amounted to \$1,029,832.

On March 24, 2022, the Company entered into a \$1,250,000 settlement agreement with Altai Partnership, LLC ("Altai") in relation to the acquisition by the Company of Lucrum Enterprises Inc. (the "LUX Acquisition") d/b/a LUX Cannabis Dispensary ("LUX") (refer to Note 9 of the audited consolidated financial statements for the year ended December 31, 2021). In April 2022, the Company received the first installment payment of \$500,000. On May 1, 2022, the Company entered into a convertible secured promissory note for the remaining \$750,000 due under the settlement agreement. The principal is payable over 36 months beginning on May 15, 2022. As at September 30, 2022, the outstanding principal amount was \$740,000.

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 10. Property, Plant and Equipment, net

As at September 30, 2022 and December 31, 2021, the Company's property, plant and equipment, net consisted of the following:

	Land	Land improvements	Retail and Agricultural Buildings	Agricultural and Manufacturing Equipment	CIP	Furniture, fixtures, and equipment	Leasehold improvements	Total
<b>At Cost</b>								
As at December 31, 2020	\$ 3,404,572	\$ -	\$ 11,068,493	\$ 5,964,202	\$ 835,706	\$ 2,097,842	\$ 405,102	\$ 23,775,917
Additions	-	-	2,995	125,721	2,998,291	113,922	68,322	3,309,251
Business acquisitions	310,000	-	2,290,000	326,178	517,524	278,129	1,124,688	4,846,519
Disposals and transfers	-	-	-	(72,210)	(25,994)	(29,312)	129	(127,387)
Reclass on completed phase of construction	-	-	1,684,336	641,997	(2,343,381)	17,048	-	-
As at December 31, 2021	3,714,572	-	15,045,824	6,985,888	1,982,146	2,477,629	1,598,241	31,804,300
Additions	-	-	40,290	145,611	204,993	71,238	199,737	661,869
Urbn Leaf Acquisition (Note 3)	5,788,146	-	9,131,851	-	1,456,832	1,595,876	5,703,810	23,676,515
Loudpack Acquisition (Note 3)	15,964,209	2,568,361	32,171,722	3,532,755	-	2,429,038	773,765	57,439,850
Reclassification*	-	-	-	-	-	(59,558)	(151,522)	(211,080)
Disposals and transfers	-	-	-	(922,473)	-	(158,623)	(216,691)	(1,297,787)
Reclass on completed phase of construction	-	-	-	-	(2,827,201)	306,636	2,520,565	-
As at September 30, 2022	\$ 25,466,927	\$ 2,568,361	\$ 56,389,687	\$ 9,741,781	\$ 816,770	\$ 6,662,236	\$ 10,427,905	\$ 112,073,667
<b>Accumulated depreciation</b>								
As at December 31, 2020	\$ -	\$ -	\$ 1,946,969	\$ 2,782,406	\$ -	\$ 982,358	\$ 154,577	\$ 5,866,310
Disposals and transfers	-	-	35,242	(26,120)	-	(9,746)	(31,753)	(32,377)
Depreciation expense	-	-	805,892	1,178,227	-	398,340	72,298	2,454,757
As at December 31, 2021	-	-	2,788,103	3,934,513	-	1,370,952	195,122	8,288,690
Disposals and transfers	-	-	-	(108,520)	-	(39,599)	(24,514)	(172,633)
Reclassification*	-	-	-	-	-	(11,834)	(7,916)	(19,750)
Depreciation expense	-	118,635	1,408,506	1,484,650	-	806,146	664,987	4,482,924
As at September 30, 2022	\$ -	\$ 118,635	\$ 4,196,609	\$ 5,310,643	\$ -	\$ 2,125,665	\$ 827,679	\$ 12,579,231
<b>Net Book Value</b>								
As at December 31, 2021	3,714,572	-	12,257,721	3,051,375	1,982,146	1,106,677	1,403,119	23,515,610
As at September 30, 2022	\$ 25,466,927	\$ 2,449,726	\$ 52,193,078	\$ 4,431,138	\$ 816,770	\$ 4,536,571	\$ 9,600,226	\$ 99,494,436

\* Reclassification includes the amounts transferred to assets held for sale as at September 30, 2022 (Note 13).

Depreciation expense relating to property, plant and equipment, net for the three and nine months ended September 30, 2022 and 2021 was as follows:

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Cost of goods sold - wholesale	\$ 534,125	\$ 546,586	\$ 1,541,575	\$ 1,574,202
Expenses	1,305,391	108,609	2,941,349	224,119
Total depreciation and amortization relating to property, plant and equipment, net	\$ 1,839,516	\$ 655,195	\$ 4,482,924	\$ 1,798,321

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 11. Intangible Assets and Goodwill

There were no indicators of impairment during the period end. A reconciliation of the beginning and ending balances of intangible assets and goodwill for the nine months ended September 30, 2022 was as follows:

	Intangible Assets					Goodwill
	Licenses	Trademark	Developed technology	Customer relationships	Total	
<b>At Cost</b>						
Balance as at December 31, 2020	\$ 57,874,884	\$ 46,666	\$ -	\$ -	\$ 57,921,550	\$ 14,366,055
Additions:						
Sublime acquisition	13,400,000	6,800,000	3,200,000	6,300,000	29,700,000	17,372,223
Accucanna acquisition	2,900,000	-	-	-	2,900,000	3,343
Impairment	<u>(24,674,884)</u>	<u>(23,267)</u>	<u>-</u>	<u>-</u>	<u>(24,698,151)</u>	<u>(535,044)</u>
Balance as at December 31, 2021	49,500,000	6,823,399	3,200,000	6,300,000	65,823,399	31,206,577
Additions (Note 3):						
Urbn Leaf Acquisition	8,310,000	-	-	-	8,310,000	52,277,981
Sublime Acquisition	-	-	-	-	-	1,148,313
Loudpack Acquisition	-	3,375,189	-	-	3,375,189	55,265,552
Write off from sale of business	<u>(6,700,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,700,000)</u>	<u>-</u>
Balance as at September 30, 2022	<u>\$ 51,110,000</u>	<u>\$ 10,198,588</u>	<u>\$ 3,200,000</u>	<u>\$ 6,300,000</u>	<u>\$ 70,808,588</u>	<u>\$ 139,898,423</u>
<b>Accumulated Amortization</b>						
As at December 31, 2021	\$ -	\$ 247,628	\$ 316,558	\$ 566,569	\$ 1,130,755	\$ -
Amortization	<u>-</u>	<u>566,668</u>	<u>480,000</u>	<u>859,093</u>	<u>1,905,761</u>	<u>-</u>
As at September 30, 2022	<u>\$ -</u>	<u>\$ 814,296</u>	<u>\$ 796,558</u>	<u>\$ 1,425,662</u>	<u>\$ 3,036,516</u>	<u>\$ -</u>
<b>Net book value</b>						
As at December 31, 2021	<u>49,500,000</u>	<u>6,575,771</u>	<u>2,883,442</u>	<u>5,733,431</u>	<u>64,692,644</u>	<u>31,206,577</u>
As at September 30, 2022	<u>\$ 51,110,000</u>	<u>\$ 9,384,292</u>	<u>\$ 2,403,442</u>	<u>\$ 4,874,338</u>	<u>\$ 67,772,072</u>	<u>\$ 139,898,423</u>

The fair value of the acquired intangible assets and goodwill from the Urbn Leaf Acquisition and Loudpack Acquisition are provisional pending receipt of the final valuation for the assets (Note 3).

Amortization expense of \$639,293 and \$1,905,761 was recorded for the three and nine months ended September 30, 2022, respectively.



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## 12. Right-of-use Assets and Lease Liabilities

### *Right-of-use Assets*

As at September 30, 2022 and December 31, 2021, the Company's right-of-use assets consisted of the following:

	<u>Right-of-use Assets - Buildings</u>
<b>Cost</b>	
Balance as at December 31, 2021	\$ 6,101,302
Write-off from lease modification	(16,970)
Reclassification*	(1,946,316)
Acquired leases	<u>17,772,275</u>
Balance as at September 30, 2022	<u>\$ 21,910,291</u>
<b>Accumulated amortization</b>	
Balance as at December 31, 2021	1,667,905
Reclassification*	(439,179)
Amortization expense	<u>1,753,746</u>
Balance as at September 30, 2022	<u>\$ 2,982,472</u>
<b>Net book value</b>	
As at December 31, 2021	<u>4,433,397</u>
As at September 30, 2022	<u>\$ 18,927,819</u>

\* Reclassification includes the amounts transferred to assets held for sale as at September 30, 2022 (Note 13).

### *Lease Liabilities*

The Company's lease liabilities consist of various real property leases. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The incremental borrowing rate for the additions during the nine months ended September 30, 2022 ranged from 9.5% to 15.0% for leases acquired in acquisitions.

The following is a summary of the activity in the Company's lease liability for the nine months ended September 30, 2022:

Balance as at December 31, 2021	\$ 6,328,884
Acquired leases	28,081,703
Lease payments	(3,458,585)
Write-off from lease modification	(32,558)
Reclassification*	(2,464,618)
Interest expense	<u>2,133,099</u>
Ending lease liability as at September 30, 2022	30,587,925
Less: current portion	<u>(1,652,028)</u>
Non-current lease liability	<u>\$ 28,935,897</u>

\* Reclassification includes the amounts transferred to liabilities held for sale as at September 30, 2022 (Note 13).

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
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## 12. Right-of-use Assets and Lease Liabilities (continued)

The Company also leases office and other retail space from related parties (Note 29). The Company recognized no material expenses related to short-term leases and leases of low-value assets for the nine months ended September 30, 2022.

## 13. Assets and Liabilities Held for Sale

As at September 30, 2022, the Company has been actively marketing certain rights and interests in non-core assets of the Company, including cannabis licenses in non-core geographies within California and selected retail operations in Oregon and California. The Company classified the assets as held for sale and valued such assets at their fair market value less costs to sell. The Company did not recognize any impairment loss associated with assets held for sale as at September 30, 2022.

Changes in the carrying amount of assets and liabilities held for sale was as follows:

<b>Assets held for sale</b>	
Balance as at December 31, 2021	\$ -
Transferred in/(out)	<u>2,183,445</u>
Total assets held for sale as at September 30, 2022	<u>\$ 2,183,445</u>
<b>Liabilities associated with assets held for sale</b>	
Balance as at December 31, 2021	\$ -
Transferred in/(out)	<u>3,314,089</u>
Total liabilities held for sale as at September 30, 2022	<u>\$ 3,314,089</u>

The assets and liabilities held for sale were comprised of the following as at September 30, 2022:

Accounts receivable	\$ 3,826
Inventories	73,631
Prepaid expenses and other current assets	17,032
Property, plant and equipment	191,334
Right-of-use assets	1,507,137
Due from other entities	377,555
Deposits and other assets	<u>12,930</u>
Assets held for sale	<u>\$ 2,183,445</u>
Accounts payable and accrued liabilities	\$ 430,658
Excise, cultivation and property tax liabilities	3,144
Income tax payable	380,302
Deferred tax liabilities	35,367
Lease payable	<u>2,464,618</u>
Liabilities associated with assets held for sale	<u>\$ 3,314,089</u>

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchases incurred in the normal course of business.

The Company's accounts payable and accrued liabilities consist of the following as at September 30, 2022 and December 31, 2021:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Accounts payable	\$ 26,863,971	\$ 9,752,220
Accrued local and sales taxes	7,408,970	7,569,657
Accrued liabilities	7,253,221	2,954,185
Accrued payroll	3,311,746	2,115,617
Accrued loyalty rewards program	<u>2,580,207</u>	<u>-</u>
Total accounts payable and accrued liabilities	<u>\$ 47,418,115</u>	<u>\$ 22,391,679</u>

### 15. Notes payable

The Company assumed notes payable through the Urbn Leaf Acquisition and Loudpack Acquisition (Note 3). The notes payable consists of the following as at September 30, 2022:

	<u>Total outstanding</u>
Carryover Notes	\$ 26,103,425
Senior Secured Debt	7,479,000
ACS Agreements	615,283
Seaside Note	340,000
Urbn Leaf - Lafayette Street	304,139
Urbn Leaf - UL Visalia LLC	247,943
SBC Private loans	150,000
Vehicle financings	<u>117,590</u>
Total notes payable	35,357,380
Less unamortized deferred financing costs	<u>(264,168)</u>
Total notes payable, net	<u>\$ 35,093,212</u>

The loan fees associated with obtaining the notes payable are recorded as a reduction to the carrying amount and are being amortized as interest expense within the unaudited condensed interim consolidated financial statements over the term of the notes.

#### *Carryover Notes*

In conjunction with the Loudpack Acquisition, the Company assumed the Senior Carryover Notes and Junior Carryover Notes (collectively, the "Carryover Notes"). The Carryover Notes were a result of the amended and restated master debenture supplement agreement (the "Supplement Agreement") executed by Loudpack on April 4, 2022. The Supplement Agreement amended and restated the original agreement for the remaining existing debentures leaving a remaining principal amount of \$17,000,000 for the Senior Carryover Notes and \$8,000,000 for the Junior Carryover Notes. The Carryover Notes bear interest at 9%. Interest and principal are due on the maturity date of April 4, 2025.

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## 15. Notes payable (continued)

### *Senior Secured Debt*

In December 2020, Urbn Leaf received a loan ("Senior Secured Debt") in the amount of \$5,400,000. The Senior Secured Debt matures on December 21, 2022, at which time all outstanding principal plus an additional fee of \$2,079,000 is due. Monthly payments are interest only with a variable interest rate of the higher of 12.5% or the prime rate plus 9%. As at September 30, 2022, the interest rate was 13.0%. The loan is secured by certain collateral, specified under the Credit and Guaranty Agreement dated December 21, 2021, in respect of the loan.

The Company intends to refinance the Senior Secured Debt with an upsized term loan with Pelorus Equity Group (Note 2.11). The Upsized Term Loan would contain a nominal interest rate of 13.0%, along with specified origination, closing and other transaction fees, and would be secured by certain real estate assets and cannabis licenses of the Company. The Upsized Loan would mature on February 10, 2027.

### *Bridge financing*

On July 23, 2021, Urbn Leaf entered into a bridge financing in the form of a \$5,200,000 secured promissory note. The bridge financing bore interest at a rate of 15% per annum with principal and accrued interest due and payable on December 31, 2021, or earlier, depending on timing of certain events as defined in the promissory note, but subject to certain extension provisions set out in the promissory note. Urbn Leaf had the option to extend the maturity date of the bridge financing by 60 days which extended the note to February 28, 2022 (the "Initial Extension"). The Initial Extension triggered an extension fee equal to 1% of the outstanding principal amount plus all accrued interest thereon for every 30 days that the maturity date was extended. Following the Initial Extension, Urbn Leaf had the option to extend the maturity date by an additional 60 days which extended the note to April 30, 2022 for an additional extension fee for every 30 days that the maturity date was extended.

On April 29, 2022, the Company repaid the bridge financing by: (i) a cash payment in the amount of \$358,541; and (ii) the issuance of approximately \$5,870,000 worth of SVS at a price of C\$0.45 per SVS (16,660,993 SVS). The Company recorded a loss on debt extinguishment of \$105,324 in the accompanying Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

### *ACS Agreements*

On November 1, 2019 and February 27, 2022, Loudpack entered into secured promissory notes (collectively, the "ACS Agreements"). The November 2019 note was for \$1,100,065, payable over 60 monthly installments of \$24,749 beginning on or before December 1, 2019 until the principal and interest have been paid in full. Any unpaid principal and interest are due and payable on December 1, 2024, the maturity date. The February 2022 note was for \$276,650, payable over 60 monthly installments of \$6,213 beginning on or before March 1, 2020 until the principal and interest have been paid in full. Any unpaid principal and interest are due and payable on March 1, 2025, the maturity date. The ACS Agreements were assumed as part of the Loudpack Acquisition on April 4, 2022. Both notes bear interest at a rate of 12.5%.

### *Seaside Note*

On May 18, 2022, the Company entered into an agreement to acquire a further 50% ownership interest in its Seaside, California retail dispensary (Note 27). The additional interest was the result of a legal settlement with the Company's former partner in the Seaside retail dispensary. As a result, the total cost of the additional interest was \$440,000, with \$100,000 to be paid upfront (the "First Installment") and the balance payable over seven years, with \$50,000 being paid on the first and sixth anniversaries of the first installment and \$40,000 being paid on the seventh anniversary of the first installment.

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## 15. Notes payable (continued)

### *Urbn Leaf - Lafayette Street*

The membership interests of Lafayette Street Property Management, LLC were acquired using an unsecured, non-interest bearing note payable in the amount of \$2,500,000. The terms of the note were a \$500,000 down payment, and the remaining \$2,000,000 to be paid over twenty-four months in equal installments.

### *Urbn Leaf - UL Visalia LLC*

On July 30, 2019, Urbn Leaf funded 80% of the membership interest of UL Visalia LLC for a total payment of \$1,000,000. The terms of the payment plan included two initial payments totaling \$250,000 each and the remaining \$500,000 to be paid pursuant to a second amendment to the memorandum of understanding. The memorandum of understanding does not state a definitive repayment date. The note payable is unsecured and non-interest bearing.

### *SBC Private loans*

In December 2016, SBC Management LLC ("SBC") re-purchased the stock it had previously issued to a legacy partner for a total consideration of \$950,000. The unsecured loan bore interest at a rate of 10% per annum and matured on January 26, 2022. The loan was assumed as part of the Urbn Leaf Acquisition on March 1, 2022 in the amount of \$280,265. On May 11, 2022, the Company repaid the principal and accrued interest totaling \$250,665.

In May 2017, SBC borrowed \$100,000 from an individual at an interest rate of 12% per annum. The unsecured loan agreement required interest payments of \$1,000 per month through May 9, 2022, at which time the full principal balance was due. The loan was assumed as part of the Urbn Leaf Acquisition on March 1, 2022. On May 19, 2022, the Company entered into a third amendment to the promissory note extending the maturity date and principal repayment to May 9, 2023.

In August 2017, SBC borrowed \$50,000 from the same individual at an interest rate of 12% per annum. The unsecured loan agreement required interest payments of \$500 per month through August 16, 2022, at which time the full principal balance was due. The loan was assumed as part of the Urbn Leaf Acquisition on March 1, 2022. On May 19, 2022, the Company entered into a third amendment to the promissory note extending the maturity date and principal repayment to May 9, 2023.

In April 2018, SBC borrowed \$89,000 from an individual for an equipment purchase, with 3% simple interest. The unsecured loan originally matured in May 2020 and was verbally agreed to be repaid subsequent to the closing of the Urbn Leaf Acquisition. The loan was assumed as part of the Urbn Leaf Acquisition on March 1, 2022 in the amount of \$77,010. On May 18, 2022, the Company repaid the principal and accrued interest totaling \$77,010.

### *Vehicle financings*

The Company assumed six vehicle financing notes through the Loudpack Acquisition for its distribution operations. The notes mature through October 2024 with interest rates of up to 6.34%.

## 16. Revolving Credit Facility

On March 19, 2021, the Company entered into a \$12,000,000 senior secured revolving credit facility (the "Facility") with a federally regulated commercial bank (the "Bank"), as amended on June 29, 2021 and December 6, 2021. The Facility included a maturity date of March 2023, and featured a variable interest rate based on the prime rate charged by the Bank plus 2.5%, with a minimum rate of 5.75%. In conjunction with the Term Loan (Note 17), the Facility was paid in full and terminated in February 2022.

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### 16. Revolving Credit Facility (continued)

As consideration for the Facility the Company issued 4,100 warrants to the Bank to purchase MVS (the "Bank Warrants"), each of which entitled the Bank to purchase one MVS of the Company at a price of C\$369, at any time prior to March 19, 2023. As a result of the Mandatory Conversion and Reclassification, the Bank Warrants are now exercisable to acquire Common Shares on economically equivalent terms.

The fair value of the warrants was determined using a Black-Scholes-Merton option pricing model with the following assumptions as at March 19, 2021:

Risk-free interest rate		0.17%
Exercise price - U.S. \$	\$	2.95
Share price - U.S. \$	\$	1.98
Expected volatility		131%
Expected remaining life		2 years
Fair value	\$	466,716

The Bank Warrants were included as a component of deposits and other assets in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position. The Bank Warrants were amortized on a straight-line basis over the two-year term of the Facility. In connection with the payoff and termination of the Facility, during the nine months ended September 30, 2022, the Company amortized the remaining warrants and deferred financing costs of approximately \$230,000 and \$136,000, respectively.

### 17. Term Loan

On November 29, 2021, in conjunction with the intended acquisitions of Urbn Leaf and Loudpack, the Company announced that it had signed a non-binding term sheet with Pelorus Fund REIT, LLC ("Pelorus") for a total of approximately \$77,300,000 of debt financing (the "Term Loan") which would be used primarily to retire certain existing loans, including the Facility, and provide additional working capital to the Company, Urbn Leaf and Loudpack. The Company executed the loan and security agreement on February 10, 2022.

The Term Loan was funded in two tranches, with the first occurring prior to closing on the acquisitions of Urbn Leaf and Loudpack, and the second tranche funded to the Company post-closing of the Loudpack Acquisition. The first tranche was funded in three separate loans, with a loan to each of Urbn Leaf, Loudpack and the Company. The Company received approximately \$15,500,000, Loudpack received approximately \$16,400,000 and Urbn Leaf received approximately \$13,500,000 of the aggregate funds under the first tranche. From its share of the proceeds of the Term Loan, the Company repaid the \$12,000,000 outstanding under the Facility (Note 16). On April 8, 2022, the Company received approximately \$31,950,000 from the second tranche.

The Term Loan contains a nominal interest rate of 10.25% and requires monthly interest payments until the maturity date. The Company is obligated to make principal payments in the amount of 7.5% of the then outstanding balance on both the 36th and 48th payment dates. The remaining principal is due on the maturity date of February 10, 2027.

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, Urbn Leaf and Loudpack. As at September 30, 2022, the Company was in compliance with these covenants.

The interest reserve as at September 30, 2022 amounted to \$1,794,790 and is recorded as restricted cash in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 17. Term Loan (continued)

The loan fees associated with the Term Loan are recorded as a reduction to the carrying amount and are being amortized as interest expense within the unaudited condensed interim consolidated financial statements over the five-year term.

As at September 30, 2022, the outstanding balance less unamortized deferred financing costs was \$75,519,058. As at September 30, 2022, unamortized deferred financing costs amounted to \$1,780,942.

### 18. Excise, Cultivation and Property Tax Liabilities

The Company has various payment plans with the California Department of Tax and Fee Administration ("CDTFA") related to excise and cultivation taxes. The Company will apply with the CDTFA for relief of related penalties when the balance of principal and interest is paid in full. As at September 30, 2022, the Company had \$28,573,143 accrued for the excise and cultivation tax liabilities, of which \$14,654,276 related to penalties.

In July 2022, Greenfield Organix entered into a Term Sheet with the City of Greenfield (the "City of Greenfield Note") for \$2,500,000 related to prior year property tax obligations. The City of Greenfield applied credits for tax amounts already paid amounting to \$388,182 and the Company paid \$260,000 in July 2022 upon executing the term sheet. The remaining tax amount of \$2,000,000 is payable over 36 equal monthly installments beginning on July 1, 2022. The first 12 monthly payments on the outstanding balance are interest free after which the balance will bear interest at a rate of 3% per annum. As at September 30, 2022, the City of Greenfield Note amounted to \$1,695,288.

### 19. Derivative Liabilities

The following table provides a reconciliation of the beginning and ending balance of derivative liabilities and the change in fair value of derivative liabilities:

	<b>SVS Warrants and MVS Warrants Liability</b>
Balance as at December 31, 2021	\$ 779,643
Change in fair value of derivative liabilities	<u>(779,241)</u>
Balance as at September 30, 2022	<u>\$ 402</u>

#### ***Private Placement Offering of SVS Warrants and MVS Warrants***

On February 18, 2021, the Company issued warrants to purchase SVS ("SVS Warrants") and warrants to purchase MVS ("MVS Warrants"), in connection with an upsized brokered private placement of units. The warrants are classified as a liability based on the fixed-for-fixed criterion under IAS 32, *Financial Instruments: Presentation*. As a result of the Mandatory Conversion and Reclassification, the MVS Warrants are now exercisable to acquire Common Shares using the corresponding amount of Common Shares using a ratio of 100 Common Shares per MVS.

The Company used the Monte Carlo model to estimate the fair value of the derivative liabilities at issuance and at each reporting date. The Monte Carlo model uses certain Level 2 inputs in its valuation model. The key Level 2 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the Company's Common Shares, (ii) the risk-free interest rate, and (iii) the expected life of the instruments. The risk-free interest rate is based on data from the Federal Reserve Statistical Release and is extrapolated for interim periods. The expected lives are based on the expected lives of the instrument. Volatility was calculated by using the stock price returns from the comparable public companies as there was insufficient trading history in the Company's shares.

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## 19. Derivative Liabilities (continued)

### Private Placement Offering of SVS Warrants and MVS Warrants (continued)

The following assumptions were used to value the SVS Warrants as at September 30, 2022 and December 31, 2021:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Risk-free interest rate	3.87%	0.92%
Exercise price - CAD	C\$3.69	C\$3.69
Share price - CAD	C\$0.16	C\$0.46
Expected volatility	96.05%	108.74%
Expected remaining life	1.39 years	2.13 years
Fair value	\$402	\$328,867

The following assumptions were used to value the MVS Warrants as at December 31, 2021:

	<u>December 31, 2021</u>
Risk-free interest rate	0.92%
Exercise price - CAD	C\$369
Expected volatility	108.74%
Expected remaining life	2.13 years
Fair value	\$450,776

## 20. Provisions

### *IRC §280E*

Certain subsidiaries of the Company operate in the cannabis industry and are subject to IRC §280E, which prohibits businesses engaged in the trafficking of controlled substances (including cannabis as specified in Schedule I of the Controlled Substances Act) from deducting ordinary and necessary business expenses. This can result in permanent tax differences resulting from normal business expenses which are deemed non-allowable under 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). IFRIC 23 - *Uncertainty over Income Tax Treatments* 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 these 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 positions taken by the Internal Revenue Service and the findings of the U.S. Tax Court, the Company has determined that a reserve for an uncertain tax position should be recorded for all years subject to statutory review.

The Company engaged outside counsel in an attempt to successfully negotiate the settlement and subsequent payment of its potential liabilities under IRC §280E. On July 28, 2022, the Company entered into a partial payment and installment agreement with the IRS (the "IRS Agreement") for PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012, described below, and the year ended December 31, 2020.

The Company does not expect any liabilities or payments resulting from the fiscal year 2016 case or SJW cases to be resolved within 12 months of the issuance of these unaudited condensed interim consolidated financial statements. The Company has recorded an uncertain tax position based on the unknown outcome of the settlement discussions.

As at September 30, 2022 and December 31, 2021, the reserve totaled \$21,119,099 and \$36,051,249, respectively, a sum which includes the IRS Agreement and the separate tax proceedings described below.



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## 20. Provisions (continued)

### *PMACC*

PMACC was involved in two separate tax proceedings. The first, *PMACC v. Commissioner*, was an appeal to the United States Court of Appeals for the Ninth Circuit of an adverse Tax Court decision that was issued on November 29, 2018. In that decision, the Tax Court disallowed PMACC's allocation of certain expenses to cost of goods sold, holding that they were instead deductions barred by IRC §280E. At issue were PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012. The Tax Court held that the expenses were ordinary and substantiated business expenses but, because PMACC's business consists of trafficking in a Schedule I controlled substance, the expenses must be disallowed. On October 21, 2019, after a review process under Rule 155, the Tax Court determined that PMACC's total liability was \$11,013,237 plus accrued interest. In its ruling, the Tax Court rejected the assertion of penalties by the IRS, finding that the unsettled state of the law and the fact that PMACC acted reasonably and in good faith, meant that penalties under IRC §6661(a) would be inappropriate. Accordingly, management had not included penalties in the estimated provision. In December 2019, PMACC appealed the Tax Court decision to the United States Court of Appeals for the Ninth Circuit, which heard oral arguments in the case on February 9, 2021 and affirmed the Tax Court decision on April 22, 2021.

Through the IRS Agreement, the Company is resolving the tax proceeding described above and the uncertain position for the year ended December 31, 2021, through the payment of approximately \$5,800,000 to be made through \$50,000 per month payments over an expected period of 116 months, beginning in August 2022. The monthly payment amount is subject to IRS review every two years. With each review, the payments may adjust up or down depending on PMACC's ability to pay at that time. The Company does not anticipate that these biennial reviews will result in a material increase to the payment plan. During the nine months ended September 30, 2022, the Company reduced the related provision and recorded a gain of \$16,101,549 in the accompanying unaudited condensed interim consolidated financial statements and adjusted its provision to reflect the long term nature of the uncertain tax positions subject to the Agreement.

In a second Tax Court proceeding related to deductions barred by IRC §280E, the IRS issued a notice of deficiency disallowing all deductions taken in their entirety and asserting that PMACC owed \$16,035,218 in additional taxes and penalties for fiscal 2016. The Company filed its initial petition in this case to the Tax Court on February 13, 2020. As the Ninth Circuit has ruled on the earlier PMACC tax case, this matter is expected to be put back on the Tax Court calendar sometime during the year ended December 31, 2022.

### *SJW*

SJW is involved in two separate tax proceedings. The first involves the 2010, 2011, and 2012 tax years, and in this case, the IRS asserted a tax deficiency of \$2,120,215. The second proceeding involves the 2014 and 2015 tax years and in the second case the IRS asserted that SJW owed an additional \$2,064,363 in taxes and penalties. Both of these proceedings involve substantially the same issues as the PMACC cases.

On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to the cases for SJW. The Company appealed the Tax Court decisions on May 14, 2021. In an effort to resolve the matter as part of a global settlement, the Company has withdrawn its appeal.

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## 21. General and Administrative Expenses

For the three and nine months ended September 30, 2022 and 2021, general and administrative expenses consisted of the following:

	For the three months ended		For the nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Advertising and promotion	\$ 312,767	\$ 670,936	\$ 921,375	\$ 1,163,896
Banking and processing fees	338,246	295,563	1,244,814	830,480
Other general administrative	36,173	36,803	113,818	80,782
Office and general expenses	4,438,706	1,431,317	12,102,782	3,876,025
Salaries and benefits	7,448,951	3,155,152	18,665,442	9,032,615
Sales and marketing	(139,056)	593,982	1,080,841	593,982
Taxes and licenses	1,457,260	165,198	2,698,672	376,971
Travel and entertainment	153,851	137,900	597,786	239,277
Total	<u>\$ 14,046,898</u>	<u>\$ 6,486,851</u>	<u>\$ 37,425,530</u>	<u>\$ 16,194,028</u>

## 22. Loss on Sale of Business

On May 13, 2022, the Company entered into a letter of intent to sell certain assets of Sublime Machining, including its California state manufacturing license, all necessary permits from the City of Oakland and Alameda County to conduct a cannabis business and all "as is" equipment and furnishings located in the Oakland facility needed to produce pre-rolls, vape cartridges and gummies.

As part of the integration with Loudpack, in May 2022 the Company moved Sublime's manufacturing operations from Oakland to Greenfield, California. In June 2022, the agreement was modified and the Company entered into a stock purchase agreement for the sale of all issued and outstanding common stock, \$0.01 par value, of Sublime Machining for total consideration of \$200,000.

As at September 30, 2022, the Company recognized a loss on sale of business of \$7,156,287 for the write off of the property, plant and equipment, intangible asset license value and intercompany balances.

## 23. Income Taxes

StateHouse is treated as a U.S. corporation for U.S. federal income tax purposes under IRC §7874 and is subject to U.S. federal income tax. However, for Canadian tax purposes, the Corporation is expected, regardless of any application of IRC §7874, to be treated as a Canadian resident company (as defined in the ITA) for Canadian income tax purposes. As a result, the Corporation will be subject to taxation both in Canada and the U.S. Notwithstanding the foregoing, it is management's expectation that StateHouse's activities will be conducted in such a manner that income from operations will be not subject to double taxation.

The Company's income tax expense allocated for the three and nine months ended September 30, 2022 and 2021 was follows:

	For the three months ended		For the nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Current tax	\$ 3,159,152	\$ 2,142,725	\$ 9,967,768	\$ 4,884,153
Deferred tax	(335,674)	(321,330)	(1,454,105)	(329,059)
Income tax expense	<u>\$ 2,823,478</u>	<u>\$ 1,821,395</u>	<u>\$ 8,513,663</u>	<u>\$ 4,555,094</u>

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## 23. Income Taxes (continued)

The net tax provision differs from that expected by applying the U.S. federal tax rate of 21.0% to net loss before income taxes mainly due to limitations on the deductibility of certain expenses for tax purposes under IRC §280E as well as fair value adjustments for biological assets and derivative liabilities.

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movements in the net deferred tax liabilities during the nine months ended September 30, 2022 were as follows:

Balance, beginning of period	\$ 17,363,459
Recognized in loss	(1,454,105)
Reclassification*	(35,370)
Net deferred tax liability from acquisitions (Note 3)	<u>2,479,704</u>
Balance, end of period	<u>\$ 18,353,688</u>

\* Reclassification includes the amounts transferred to liabilities held for sale as at September 30, 2022 (Note 13).

## 24. Share Capital

The following is a reconciliation of the issued and outstanding shares as at September 30, 2022 and December 31, 2021:

	<b>Subordinate Voting Shares (SVS)</b>	<b>Multiple Voting Shares (MVS)</b>
Balance, December 31, 2020	26,535,608	179,096.42
Conversion of MVS to SVS	5,769,075	(57,690.75)
Issuance of new shares	5,806,700	302,965.06
Issuance on exercise of options	1,414,024	-
Issuance on settlement of RSUs	-	<u>1,600.00</u>
Balance, December 31, 2021	39,525,407	425,970.73
Issuance of new shares	168,856,565	11,289.57
Issuance on settlement of RSUs	190,202	-
Issuance on exercise of options	291,407	-
Conversion of MVS to SVS	<u>43,726,030</u>	<u>(437,260.30)</u>
Balance, September 30, 2022	<u>252,589,611</u>	<u>-</u>

On February 18, 2021, the Company closed an upsized brokered private placement of units at a price of C\$2.55 per SVS Unit (as defined below) and C\$255.00 per MVS Unit (as defined below) for aggregate gross proceeds of C\$35,103,045 (the "Offering"). Beacon Securities Limited and ATB Capital Markets acted as co-lead agents in connection with the Offering (the "Agents").

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### 24. Share Capital (continued)

Each unit issued to nonresidents of the U.S. (each, an "SVS Unit") was comprised of one SVS and one warrant. Each SVS Warrant is exercisable to acquire one SVS of the Company for a period of 36 months following the close of the Offering at an exercise price of C\$3.69 per SVS, subject to adjustment and acceleration in certain events. A total of 5,806,700 SVS Units were issued pursuant to the Offering.

All investors that are considered residents of the U.S. were issued units (each, an "MVS Unit") comprised of MVS of the Company and MVS Warrants, based on the same economic equivalency of each MVS converting into 100 SVS. The holders of MVS were entitled to one vote in respect of each SVS into which such MVS could be converted. A total of 79,592 MVS Units were issued, pursuant to the Offering. As a result of the Mandatory Conversion, all MVS issued have been converted into SVS, and holders of MVS Warrants are now entitled to receive, upon exercise of such MVS Warrants, one hundred (100) SVS per MVS Warrant at an exercise price of \$369 per MVS Warrant. As a result of the Mandatory Conversion and Reclassification, completed on March 31, 2022 and July 25, 2022, respectively, the SVS Warrants and MVS Warrants are now exercisable to acquire Common Shares on economically equivalent terms using a ratio of one Common Share per SVS and 100 Common Shares per MVS.

The SVS Warrants and MVS Warrants were valued on February 18, 2021 at \$6,128,298 and \$8,403,774, respectively, based on an implied share price of C\$1.34 and C\$134.06, respectively, valued based on the Monte Carlo model. The key assumptions used are discussed in Note 19.

In consideration for their services, the Company paid the Agents a cash commission equal to C\$1,451,340 and issued the Agents an aggregate of 569,154 Broker Warrants ("Broker Warrants"). Each Broker Warrant is exercisable until February 18, 2022 into one SVS Unit (each comprised of one SVS and one SVS Warrant) at an exercise price of C\$2.55 per SVS Unit. Upon exercise of a Broker Warrant, each underlying SVS Warrant would be exercisable at C\$3.69 per SVS Warrant until February 18, 2024. The Broker Warrants were not exercised and expired during February 2022.

The Broker Warrants were valued on February 18, 2021 at \$1,134,112 based on an implied share price of C\$2.53 valued based on the Monte Carlo model. The key assumptions used are discussed in Note 26.

The total share issuance costs related to the Offering was C\$1,756,873, which includes the commission noted above and other professional fees.

On March 31, 2022, the Company completed the Mandatory Conversion of all MVS into SVS at a ratio of 100 SVS for each MVS outstanding. In addition, each holder of MVS Warrants became entitled to acquire 100 SVS for each MVS underlying its MVS Warrants, upon exercise of such MVS Warrants.

On April 4, 2022, the Company agreed to issue an aggregate of 1,443,493 SVS at a deemed issuance price of approximately C\$0.72 per SVS to settle an aggregate of C\$1,034,647 owing to certain advisors (the "Indebtedness") for advisory services provided to the Company in connection with the Urbn Leaf Acquisition and the Loudpack Acquisition.

Effective July 25, 2022, the Company completed the Reclassification of its SVS to Common Shares.

### 25. Contributed Surplus

#### *Stock Options*

Prior to June 30, 2020, the Company maintained an equity incentive plan (the "Old Plan") whereby certain key employees, officers, directors, consultants and advisors could be granted stock options, RSAs, restricted share units, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

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## 25. Contributed Surplus (continued)

### *Stock Options (continued)*

The stock options which were awarded under the Old Plan vest on a graded-vesting schedule, generally, over a two-year period and expire 10 years after the grant date. The Company uses a graded vesting schedule to record compensation expense, which results in greater compensation expense earlier in the vesting period after an award is granted. All stock options granted are settled in the Company's Common Shares. If an employee terminates employment with the Company prior to awards vesting, the unvested awards are forfeited and the historical compensation expense for unvested options is reversed in the period of termination.

On June 30, 2020, the Company adopted an equity incentive plan (the "Plan") whereby certain key employees, officers, directors, consultants and advisors may be granted stock options, RSAs, restricted share units, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

The stock options awarded under the Plan vest in accordance with the terms established by the Board at the time of grant. The Plan was ratified by the Company's shareholders on November 24, 2020.

On January 17, 2022, the Company adopted an amended and restated equity incentive plan (the "A&R Plan") to amend the Plan in order to increase the maximum number of SVS which may be allocated for issuance pursuant to Incentive Stock Options (as defined in the A&R Plan) to up to 23,355,026 SVS or such lesser amount as determined by the Board. The A&R Plan was ratified by the Company's shareholders on February 22, 2022.

The following table summarizes the stock option activities for the nine months ended September 30, 2022 and the year ended December 31, 2021:

	<b>Number of options outstanding</b>	<b>Weighted average exercise price \$</b>
Balance, December 31, 2020	6,635,898	1.47
Options exercised	(1,414,024)	0.14
Options expired/forfeited/cancelled	(1,819,582)	1.81
Options granted	<u>1,221,860</u>	0.62
Balance, December 31, 2021	4,624,152	1.51
Options exercised	(291,407)	0.05
Options expired/forfeited/cancelled	(3,375,356)	1.14
Options granted	20,100,000	0.52
Replacement options recognized	<u>84,420</u>	3.43
Balance, September 30, 2022	<u>21,141,809</u>	0.66

During the three and nine months ended September 30, 2022, the Company recorded aggregate share-based compensation of \$628,197 and \$3,251,654, respectively, for all stock options vesting during the period. During the three and nine months ended September 30, 2021, the Company recorded aggregate share-based compensation of \$327,623 and \$510,772, respectively, for all options that vested during the period.

During the nine months ended September 30, 2022 and 2021, the Company received cash consideration of \$15,883 and \$196,356, respectively, for the exercise of 291,407 and 1,335,877 vested options, respectively.

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## 25. Contributed Surplus (continued)

### *Stock Options (continued)*

On February 4, 2022, the Company issued 84,420 replacement options to certain existing holders of Sublime options as part of the Sublime Acquisition. The Company accounted for the replacement options in accordance with IFRS 2 and IFRS 3 and recognized post-acquisition costs for share-based compensation of \$916,112 related to the issuance of these options.

On March 1, 2022, following closing of the Urbn Leaf Acquisition, the Company granted options to purchase an aggregate of 5,758,797 SVS to certain members of management and the Board. Each option is exercisable to acquire one SVS at an exercise price of C\$0.70 per SVS for a period of five years following the date of grant.

On April 4, 2022, following the closing of the Loudpack Acquisition, the Company granted options to purchase an aggregate of 9,401,203 SVS to certain members of the Board, management, employees and consultants. Each option is exercisable to acquire one SVS at an exercise price of C\$0.75 per SVS for a period of five years following the date of grant.

On April 29, 2022, the Company granted options to purchase up to an aggregate 1,540,000 SVS to certain members of management and employees. Each option is exercisable to acquire one SVS at an exercise price of C\$0.75 per SVS for a period of five years following the date of the grant.

On June 29, 2022, the Company granted options to purchase up to an aggregate 4,200,000 SVS to certain members of management and employees. Each option is exercisable to acquire one SVS at an exercise price of C\$0.37 per SVS for a period of five years following the date of grant.

On July 25, 2022, the Company completed the Reclassification of its SVS to Common Shares (Note 34). As a result of the Reclassification, each option to acquire SVS is now exercisable to acquire Common Shares.

The fair value of stock options granted by the Company during the nine months ended September 30, 2022 and 2021, under the Plan, were estimated on the grant date using the Black-Scholes-Merton option pricing model with the relevant assumptions outlined in the table below. The expected volatility was estimated based on volatility ranges acceptable in practice. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the Bank of Canada three-year bond yield rate at the time of the grant of the award. Expected annual rate of dividends was assumed to be zero based on the fact that the Company has never paid cash dividends and does not expect to pay cash dividends in the foreseeable future.

	For the nine months ended	
	September 30, 2022	September 30, 2021
Stock price at grant date	CAD 0.37 - 5.83	CAD 0.07 - 5.69
Exercise price at grant date	CAD 0.37 - 5.83	CAD 0.07 - 5.69
Expected life in years	2.5 to 6.5 years	1.5 to 7 years
Expected volatility	100%	100%
Expected annual rate of dividends	0%	0%
Risk-free annual interest rate	0.32% - 3.18%	0.25% - 3.92%

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### 25. Contributed Surplus (continued)

#### *Stock Options (continued)*

As at September 30, 2022, the options outstanding and exercisable for SVS and with the corresponding exercise price and weighted average remaining life was as follows:

<b>Date of grant</b>	<b>Expiry date</b>	<b>Number of options outstanding</b>	<b>Number of options exercisable</b>	<b>Exercise price (USD)</b>	<b>Weighted average remaining life</b>
September 1, 2020	September 1, 2025	733,612	635,000	\$ 0.693	2.92
December 23, 2020	December 23, 2025	765,000	25,000	\$ 1.335	3.23
June 11, 2021	June 11, 2026	433,354	122,810	\$ 1.612	3.70
July 2, 2021	July 2, 2026	249,792	138,958	\$ 1.299	3.76
August 1, 2016	August 1, 2026	32,631	32,631	\$ 0.050	3.84
March 1, 2022	March 1, 2027	5,758,797	-	\$ 0.511	4.42
April 4, 2022	April 4, 2027	7,601,203	400,000	\$ 0.547	4.51
April 29, 2022	April 29, 2027	1,540,000	-	\$ 0.547	4.58
June 29, 2022	June 29, 2027	3,400,000	-	\$ 0.270	4.75
April 25, 2018	April 25, 2028	440,000	440,000	\$ 4.150	5.57
May 15, 2018	May 15, 2028	43,000	43,000	\$ 4.150	5.63
June 25, 2018	June 25, 2028	10,000	10,000	\$ 4.150	5.74
February 4, 2022*	August 22, 2028	47,933	47,933	\$ 3.375	5.90
September 12, 2018	September 12, 2028	50,000	50,000	\$ 4.150	5.96
February 4, 2022*	December 31, 2028	29,922	29,922	\$ 3.375	6.25
February 4, 2022*	July 16, 2029	5,648	5,648	\$ 4.250	6.80
February 4, 2022*	July 16, 2029	917	917	\$ 3.375	6.80
Total		<u>21,141,809</u>	<u>1,981,819</u>		4.44

\*Replacement options issued as part of the Sublime Acquisition.

The weighted average remaining contractual life of outstanding options as at September 30, 2022 was 4.44 years.

#### *Restricted Stock Units ("RSUs")*

On March 1, 2022, the Company granted an aggregate of 912,599 RSUs (Note 3). The fair value on the grant date of the RSUs was valued at \$489,627 (or \$0.54 per RSU) based on the intrinsic value on the grant date.

On April 4, 2022, the Company granted an aggregate of 2,737,401 RSUs. The fair value on the grant date of the RSUs was valued at \$1,641,003 (or \$0.60 per RSU) based on the intrinsic value on the grant date.

On June 29, 2022, the Company granted an aggregate 450,000 RSUs to certain board members. The fair value on the grant date of the RSUs was valued at \$129,837 (or \$0.29 per RSU) based on the intrinsic value on the grant date.

During the three and nine months ended September 30, 2022, the Company recorded share-based compensation expense of \$285,160 and \$689,146, respectively, as a result of vested RSUs.

During the three months ended September 30, 2022, 200,000 RSUs were settled, resulting in the issuance of 190,202 Common Shares. As at September 30, 2022, the Company had an aggregate of 3,975,000 RSUs outstanding which includes grants prior to March 1, 2022.

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## 26. Reserve for Warrants

The activity for warrants outstanding for the nine months ended September 30, 2022 and the year ended December 31, 2021 is summarized as follows:

	Subordinate Voting Shares		
	Number of warrants outstanding	Weighted average exercise price CAD \$	Weighted average exercise price USD \$
Balance, December 31, 2020	3,279,300	8.49	6.10
Warrants expired	(2,806,981)	8.75	6.88
Broker Warrants expired	(160,775)	7.00	5.50
Broker Warrants expired	(311,544)	6.90	5.42
Issuance of SVS Warrants	5,806,700	3.69	2.91
Issuance of Broker Warrants	<u>569,154</u>	2.55	2.01
Balance, December 31, 2021	6,375,854	3.59	2.54
Conversion of MVS Warrants to SVS	7,959,200	3.69	2.69
Conversion of Bank Warrants to SVS	410,000	3.69	2.69
Issuance of warrants (Loudpack Acquisition)	2,000,000	3.12	2.28
Broker Warrants expired	<u>(569,154)</u>	2.55	1.86
Balance, September 30, 2022	<u>16,175,900</u>	3.62	2.61
	Multiple Voting Shares		
	Number of warrants outstanding	Weighted average exercise price CAD \$	Weighted average exercise price USD \$
Balance, December 31, 2020	-	-	-
Issuance of MVS Warrants	79,592	369.00	291.00
Issuance of Bank Warrants	<u>4,100</u>	369.00	291.00
Balance, December 31, 2021	83,692	369.00	291.00
Conversion of MVS Warrants to SVS	(79,592)	369.00	269.00
Conversion of Bank Warrants to SVS	<u>(4,100)</u>	369.00	269.00
Balance, September 30, 2022	<u>-</u>	-	-

### *Warrants*

On February 18, 2021, the Company issued 5,806,700 SVS and 79,592 MVS Warrants in connection with the Offering (Note 24). Each SVS Warrant entitles the holder thereof to purchase one SVS of the Company at an exercise price of C\$3.69 per share until February 18, 2024. Each MVS Warrant entitles the holder thereof to purchase one MVS of the Company at an exercise price of C\$369 per share until February 18, 2024. Due to the Mandatory Conversion, all MVS Warrants previously exercisable into MVS, are now exercisable into SVS. In particular, each holder of MVS Warrants is now entitled to receive, upon exercise of the MVS Warrants, one hundred SVS per MVS Warrant at an exercise price of \$369 per MVS Warrant.

The SVS Warrants and MVS Warrants are being accounted for as a derivative liability (Note 19).



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## 26. Reserve for Warrants (continued)

### *Warrants (continued)*

On March 19, 2021, the Company issued 4,100 Bank Warrants to purchase MVS to the Bank in connection with the Facility (Note 16), exercisable at a price of C\$369 per MVS, at any time prior to March 19, 2023. As a result of the Mandatory Conversion and Reclassification, the Bank Warrants are now exercisable to acquire Common Shares on economically equivalent terms.

The Bank Warrants were accounted for as other assets and were amortized on a straight-line basis over the two-year term of the Facility. The Company amortized the remaining balance of the warrants in conjunction with repayment of the Facility (Note 16).

On April 4, 2022, the Company issued 2,000,000 warrants as consideration for the Loudpack Acquisition, which are exercisable to purchase SVS at a price of \$2.50 per SVS, anytime prior to April 4, 2027 (Note 3).

As a result of the Reclassification, all warrants are now exercisable to acquire Common Shares.

### *Broker Warrants*

As detailed in Note 24, the Company issued 569,154 Broker Warrants to the Agents as compensation in connection with the Offering. Each Broker Warrant was exercisable until February 18, 2022 into one SVS Unit (each comprised of one SVS and one SVS Warrant) at an exercise price of C\$2.55 per SVS Unit. Upon exercise of a Broker Warrant, each underlying SVS Warrant would have been issued and been exercisable at C\$3.69 per share until February 18, 2024. All of the Broker Warrants expired on February 18, 2022, and no underlying SVS Warrants were issued.

The Broker Warrants were valued based on the Monte Carlo model at the date of measurement with the following assumptions:

	<b>February 18, 2021</b>
Risk-free interest rate	0.35%
Exercise price - CAD	C\$2.55
Share price - CAD	C\$2.65
Expected volatility	111.40%
Expected remaining life	1 year
Fair value - CAD	C\$1,439,960
Fair value - U.S.	\$1,134,112

The following table summarizes information of warrants outstanding as at September 30, 2022:

<b>Date of expiry</b>	<b>Number of warrants outstanding</b>	<b>Weighted Average Exercise price (CAD)</b>	<b>Weighted Average Exercise price (USD)</b>	<b>Weighted average remaining life</b>
March 19, 2023	410,000	3.69	2.69	0.47
February 18, 2024	5,806,700	3.69	2.69	1.39
February 18, 2024	7,959,200	3.69	2.69	1.39
November 29, 2026	<u>2,000,000</u>	3.12	2.28	4.17
Total	<u>16,175,900</u>	3.62	2.64	1.71

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 27. Non-controlling interests

On February 15, 2022, the Company entered into a definitive securities purchase agreement (the "Subsequent FGW Agreement"), whereby a further 29.9% interest in FGW (the "Subsequent Shares") would be acquired, subject to certain material closing conditions, including approvals from regulatory authorities. The acquisition of the Subsequent Shares will increase the Company's interest in FGW to 80%, subject to obtaining the Specified Approval and converting the FGW Note. The Company also retains a right of first refusal to purchase, in its discretion, in whole or in part and in one or more closings, the remaining 20% of FGW, subject to regulatory approvals. Pursuant to the Subsequent FGW Agreement, the Company will pay an aggregate purchase price of \$1,300,650 for the Subsequent Shares to be satisfied in MVS priced at the greater of: (i) the 30-day volume weighted average price of the SVS on the CSE ending on the day prior to closing of the purchase of the Subsequent Share multiplied by 100; (ii) C\$150 per MVS; or (iii) such other price as may be approved by the CSE. Prior to closing the acquisition of the Subsequent Shares, the Subsequent FGW Agreement will be amended to reflect the occurrence of the Mandatory Conversion. As at September 30, 2022, there were no changes in the ownership for FGW.

On March 1, 2022, the Company acquired several non-controlling interests through the Urbn Leaf Acquisition (Note 3).

On May 18, 2022, the Company entered into an agreement to acquire the remaining 50% ownership interest in its Seaside, California retail dispensary (the "Seaside Acquisition"). The additional interest was acquired through a legal settlement (Note 15). The Seaside Acquisition resulted in the Company owning all of the issued and outstanding securities of 680 Broadway Master, LLC, which owns the Seaside retail dispensary, bringing the Company's interest in the Seaside retail dispensary to 100%.

As at September 30, 2022, the Company held the following ownership interests:

FGW Haight Inc.	21.00%
UL Chula Two LLC	51.00%
UL La Mesa LLC	59.56%
JLM Investment Group, LLC	66.66%
Banana LLC	75.00%
UL Benicia LLC	70.00%
UL Visalia LLC	80.00%
ULRB LLC	80.00%
Lafayette Street Property Management, LLC	90.00%

The change in non-controlling interests for the nine months ended September 30, 2022 was as follows:

Balance, December 31, 2021	\$ 2,857,465
Purchases of businesses - initial equity related to non-controlling interests (Note 3)	896,521
Purchase of remaining interest in Seaside Acquisition	(282,748)
Share of loss for the period	<u>(556,271)</u>
Balance, September 30, 2022	<u>\$ 2,914,967</u>

### 28. Net income (loss) per share

Basic loss per share is calculated by dividing net profit or loss attributable to ordinary equity holders of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. For purposes of calculating loss per share, the dilutive effect of outstanding MVS is converted into 100 SVS on a weighted-average basis for the number of days the MVS are outstanding.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2022 and 2021 (Expressed in United States Dollars, except share amounts)

### 28. Net income (loss) per share (continued)

On March 31, 2022, the Company completed the Mandatory Conversion of all MVS into SVS at a ratio of 100 SVS for each MVS outstanding (Note 24). On July 25, 2022, the Company reclassified its SVS to Common Shares.

The following is a reconciliation for the calculation of basic and diluted loss per share for the three and nine months ended September 30, 2022 and 2021:

	For the three months ended		For the nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net income (loss) attributable to StateHouse Holdings Inc.	\$(20,128,975)	\$ 2,733,602	\$(43,966,736)	\$ 1,580,808
Weighted average number of shares outstanding	255,175,119	80,483,154	200,702,919	54,812,492
Dilutive effect of warrants outstanding	-	918,854	-	918,854
Diluted weighted average number of shares outstanding	255,175,119	81,402,008	200,702,919	55,731,346
Basic earnings (loss) per share	\$ (0.08)	\$ 0.03	\$ (0.22)	\$ 0.03
Dilutive earnings (loss) per share	\$ (0.08)	\$ 0.03	\$ (0.22)	\$ 0.03

### 29. Related Party Transactions and Key Management and Director Compensation

#### (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 three and nine months ended September 30, 2022 and 2021 was as follows:

	For the three months ended		For the nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Short-term employee benefits, including salaries and director fees	\$ 745,119	\$ 362,013	\$ 1,804,417	\$ 1,025,738
Executive bonus	-	-	-	246,250
Share-based compensation - Directors and Executives	856,974	164,399	2,725,235	446,813
Total	\$ 1,602,093	\$ 526,412	\$ 4,529,652	\$ 1,718,801

On July 19, 2021, Matt Hawkins, Chairman of the Board, assumed the position of Interim CEO of the Company. 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 September 30, 2022, \$45,000 was payable to Cresco Capital Management II, LLC, an entity doing business as Entourage Effect Capital ("Entourage"), through which Mr. Hawkins was compensated for his services as the Interim CEO of the Company. Entourage is controlled and directed by Matt Hawkins and Andrew Sturner, director and former director of the Company, respectively. Effective April 4, 2022, Mr. Sturner resigned from the Board.

As at September 30, 2022, \$3,600 was payable to Newhouse Development LLC ("Newhouse"), a company controlled by Tom DiGiovanni, the Chief Financial Officer ("CFO"), through which Mr. DiGiovanni is compensated for his services as CFO of the Company (December 31, 2021 - \$34,720).

# STATEHOUSE HOLDINGS INC.

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## 29. Related Party Transactions and Key Management and Director Compensation (continued)

### (a) Key Management and Director Compensation (continued)

As at September 30, 2022, \$202,540 was payable to Will Senn, Chief Corporate Development Officer, for deferred compensation.

As at September 30, 2022, \$81,750 was payable to the directors for the third quarter director fees and \$1,667 was payable for second quarter director fees (December 31, 2021 - \$161,198).

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

### (b) Related Parties

		Transactions for the three months ended		Transactions for the nine months ended		Balance outstanding	
		September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021	September 30, 2022	December 31, 2021
<b>Purchases of goods or services from related parties:</b>							
Sublime	Matthew Hawkins and Andrew Sturner, directors of the Company are partners at Entourage Effect Capital which was an investor in Sublime. As at July 2, 2021, Sublime was acquired by the Company.	\$ -	\$ 96,863	\$ -	\$ 292,084	\$ -	\$ -
Flow Cannabis Co.	Kevin Albert, a former director of the Company, serves as a director on the board of Flow Cannabis Co. As at April 4, 2022, Mr. Albert resigned from the Board.	\$ -	\$ -	\$ -	\$ 833	\$ 1,517	\$ 1,517
Branson Corporate Services Ltd. ("Branson")	Branson provided finance, accounting and administrative services to the Company. Mr. Bilodeau holds a 16% ownership interest in Branson. As at July 2021, Mr. Bilodeau is no longer a related party of the Company. As at October 2021, the Company no longer uses Branson.	\$ -	\$ -	\$ -	\$ 86,648	\$ -	\$ -
Black Oak Ventures ("Black Oak")	Black Oak provided certain investor relations services to the Company. Black Oak's principal is an immediate family member of Mr. Bilodeau. As at July 2021, Mr. Bilodeau is no longer a related party of the Company. As at July 2021, the Company no longer uses Black Oak.	\$ -	\$ -	\$ -	\$ 36,000	\$ -	\$ -
<b>Sales to related parties:</b>							
Sublime	Matthew Hawkins and Andrew Sturner, directors of the Company are partners at Entourage Effect Capital which was an investor in Sublime. As at July 2, 2021, Sublime was acquired by the Company.	\$ -	\$ -	\$ -	\$ 566,472	\$ -	\$ -

All purchases of goods and services were at arm's length market rates. All sales of goods were at arm's length market rates. Effective April 4, 2022, Mr. Sturner and Mr. Albert resigned from the board of directors.

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## 29. Related Party Transactions and Key Management and Director Compensation (continued)

### (c) Other Related Parties

On June 1, 2020, the Company entered into an additional consulting agreement with Newhouse to provide financial and accounting services, related to one of the Company's management services agreements, in exchange for cash compensation. The services are being provided by an immediate family member of the Company's CFO. As at September 30, 2022, a total of \$3,600 was payable to Newhouse which was related to the June 1, 2020 agreement.

On July 19, 2021, the Company entered into two consulting agreements with Entourage in exchange for cash compensation. The first was for Matthew Hawkins to provide management services as Interim CEO, and the second was for Entourage to provide business and executive management services related to retail, wholesale and manufacturing operations. As at September 30, 2022, a total of \$45,000 was payable to Entourage, of which \$nil was related to the agreement described in section (a) above.

An immediate family member of Mr. Senn is employed by the Company. Short term employee benefits including salary expense was \$57,937 for the nine months ended September 30, 2022 and as at September 30, 2022 \$94,087 was payable for deferred compensation.

Lafayette Street Property Management, LLC leases a building in Stockton, California in which an officer of the Company owns a 45% interest. The Company paid \$36,000 and \$84,000 during the three and nine months ended September 30, 2022, respectively, for rent expense.

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. The monthly rent for this property is \$10,000, plus triple-net expenses. The Company paid \$45,000 and \$85,000 during the three and nine months ended September 30, 2022, respectively, for rent expense.

ULBP Inc. leases a building in La Mesa, California in which an officer of the Company owns a 50% interest. The Company paid \$19,096 and \$44,372 during the three and nine months ended September 30, 2022, respectively, for rent expense.

## 30. Commitments and Contingencies

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's growth continues, 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.

### *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 - *Uncertainty over Income Tax Treatments* provides guidance that adds to the requirements in IAS 12, *Income Taxes*, 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 Internal Revenue Service and the U.S. Tax Court, determined that a reserve for an uncertain tax position should be recorded.

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## 30. Commitments and Contingencies (continued)

*IRC §280E (continued)*

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 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 a partial payment installment agreement with the IRS related to certain federal tax returns of PMACC (Note 20).

As at September 30, 2022 and December 31, 2021, the reserve totaled \$21,119,099 and \$36,051,249, respectively.

*Michael Adams, Andrew Coleman, and Other Individuals Similarly Situated v. Patients Mutual Assistance Collective Corp dba Harborside Health et al.*

On or about January 10, 2020, PMACC was served with a complaint filed by plaintiff and putative class representative Mr. Michael Adams. The complaint, filed on January 7, 2020 in Superior Court of the State of California for Alameda County, alleges violations of the California Business and Professions Code §17200 with respect to PMACC's employee wage payment practices, and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Mr. Adams. At a May 4, 2021 mediation, the parties did not reach a settlement agreement, however, the parties agreed to continue discovery. On March 4, 2022, PMACC received a notice pursuant to the Labor Code Private Attorneys General Act ("PAGA") from former employee Andrew Coleman, a similar claim to Mr. Adams. Both matters have been assigned to counsel. It is the intent of the Company to prevail or settle the matter, however, given the fact that this matter is in the motions and discovery phase, it is not possible to determine or predict the scope of any resolution at this time.

*Gia Calhoun and Other Individuals Similarly Situated v. FLRish, Inc.*

On January 6, 2020, the Company's subsidiary FLRish, Inc. was served with a complaint filed by plaintiff and putative class representative Ms. Gia Calhoun. The complaint, filed on December 17, 2019 in the U.S. Federal District Court for the Northern District of California, alleges violations of the Telephone Consumer Protection Act (47 USC §227 et seq.) ("TCPA") and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Ms. Calhoun. It is the intent of the Company to prevail or settle the matter, however, given the fact that this matter is in the motions and discovery phase, it is not possible to determine or predict the scope of any resolution at this time.

*John Doe and Other Individuals Similarly Situated v. FLRish, Inc.*

On December 13, 2021, the Company received a summons and complaint filed in the Alameda Superior Court by a John Doe plaintiff, alleging a violation of the California Confidentiality of Medical Information Act ("CMIA") and two violations of the California Business & Professions Code by PMACC, FLRish and FLRish RMCo. It is the intent of the Company to prevail or settle the matter, however, given the fact that this matter is in the motions and discovery phase, it is not possible to determine or predict the scope of any resolution at this time.

*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. No trial date has been set as both parties continue to engage in settlement negotiations. The Company believes it has meritorious defenses to the alleged causes of action and it is the intent of the Company to prevail in this matter.

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## 30. Commitments and Contingencies (continued)

*Alexander Fang v. Sublime Machining, Inc.*

On August 27, 2021, the Company was served with a Demand for Arbitration by Mr. Alexander Fang, a former employee and founder of Sublime Machining, Inc. The Company filed its counterclaim alleging breach of fiduciary duty and fraudulent misrepresentation. The Company believes that it has meritorious defenses to the alleged causes of action and it is the intent of the Company to prevail in this matter.

*Tony Banks, individually and on behalf of the aggrieved employees pursuant to the Private Attorneys General Act v. Sublime Machining, Inc. dba Sublime Canna*

On November 3, 2021, the Company received a summons and complaint filed in the Alameda Superior Court on behalf of Sublime. The plaintiff, Tony Banks, a former employee of the Company, filed a complaint alleging wage and hour violations on behalf of himself and all aggrieved employees pursuant to PAGA. It is the intent of the Company to prevail or settle the matter, however, given the fact that this matter is in discovery phase, it is not possible to determine or predict the scope of any resolution at this time.

*Lilu Financials LLC v. UL Holdings Inc., UL Management LLC and Will Senn*

On September 24, 2021, Urbn Leaf received a summons and complaint alleging violations of the contract between the parties, under which Lilu Financials, LLC ("Lilu") and its principal, Roopal Patel, performed CFO services for the Company. This matter is in the discovery phase, which is stayed by order of the court pending a ruling on a motion for Lilu to post an undertaking pursuant to the Code of Civil Procedure. Lilu has filed a motion to amend the complaint. The matter remains in discovery. It is the intent of the Company to prevail in this matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Jeffery Stillwell v. 680 Broadway Master, LLC*

On December 23, 2021, Urbn Leaf received a summons and complaint filed by former employee Jeffery Stillwell ("Stillwell") in Monterey County Superior Court alleging certain violations of labor and employment law. 680 Broadway Master LLC entered into a stipulation with Stillwell to refer the matter to binding arbitration. On September 21, 2021, Stillwell refiled the matter in arbitration. This matter is currently in the discovery phase. It is the intent of the Company to prevail in this matter.

*Bubba Likes Tortillas, LLC v. New Origins Management, Inc., San Diego Alternative Treatment Center Cooperative d.b.a. Southwest Patient Group, Wayne Alexander Scherer, Rezwan H. Kwan*

In 2021, Urbn Leaf received a summons and complaint filed by Bubba Likes Tortillas, LLC alleging violations of the contract between the parties. Southwest Patient Group changed its name to Uprooted Inc. and was subsequently acquired by UL Holdings Inc. These claims occurred prior to UL Holdings Inc. acquiring Uprooted Inc. It is the intent of the Company to prevail in this matter.

*Jeffery Rivera and Natasha Heacock on behalf of the State of California as Private Attorney Generals v. ULBP Inc. et al*

On April 19, 2022, former employees of Urbn Leaf filed a Representative Action Claim in Superior Court, County of Santa Clara, against ULBP Inc., a subsidiary of Urbn Leaf and other parties. The complaint alleges a violation of PAGA and an award of attorneys' fees and costs. It is the intent of the Company to prevail or settle this matter, however, it is not possible to determine or predict the scope of any resolution at this time.

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## 30. Commitments and Contingencies (continued)

*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 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: negligence, and negligence per se. This matter has been tendered to the Company's insurance provider. 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.

*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. Plaintiff, who is the worker's compensation insurance carrier for the contracted security company, is seeking compensatory damages. 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.

*Martin Jauregui 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 "Jauregui class action"). The parties have executed a class action settlement agreement (the "Jauregui settlement") and have agreed on a maximum settlement amount. The settlement payments must be paid over biweekly payments starting 30 days after final approval, which is expected to be in late 2023. On June 29, 2022, the court granted preliminary approval of the settlement. The settlement is now moving into the claims administration process. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

*Maria Adan on behalf of herself and all other similarly situated v. LPF RE Manager, LLC*

In October of 2020, LPF RE Manager, LLC received a summons alleging a second wage and hour claim related to Loudpack's security screening procedures. The parties executed class action settlement agreement and on June 29, 2022, the trial court granted preliminary approval of the class and PAGA settlement. The settlement is now moving into the claims administration process. It is the intent of the Company to prevail or settle this matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*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. This case is currently stayed pending the outcome of the two above mentioned wage and hour cases related to Loudpack's security screenings. 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.



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## 30. Commitments and Contingencies (continued)

*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 insurance. Discovery is ongoing. 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.

*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 has scheduled a Compliance Hearing regarding Dismissal for December 12, 2022.

*Elliot Espinoza v. Loud Pack Farms, Loudpack Inc., Loud Pack Legendx LLC, Loud Pack Legendz Inc., Greenfield Organix*

In September 2021, Loudpack was served with a complaint for compensatory damages alleging claims for product liability, misrepresentation and negligence. This matter is in discovery. 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.

*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 Company's 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 Cherry Avenue property in Greenfield. This matter has been referred to Company's 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.

*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.

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## 31. 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 changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt or acquire or dispose of assets. With the exception of certain restrictive covenants included in the Carryover Notes, Senior Secured Debt and Term Loan (Note 15 and 17), the Company is not subject to externally imposed capital requirements. The Board does not establish quantitative criteria related to a return on capital for management, but rather relies on the management team's expertise to sustain future development of the business.

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

- (i) minimizing discretionary disbursements;
- (ii) reducing operating expenditures throughout the Company; and
- (iii) exploring alternative 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 have been no material changes to the Company's capital management approach during the three and nine months ended September 30, 2022 and 2021.

## 32. Financial Risk Management

The Company is exposed to a variety of financial instrument related risks. Management, in conjunction with the Company's Board of Directors, 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 come 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 September 30, 2022 and December 31, 2021, the Company had a cash and restricted cash balance of \$9,430,182 and \$9,091,405, respectively, to settle current liabilities of \$134,038,231 and \$70,614,682, respectively. The higher amount of current liabilities as at September 30, 2022 and December 31, 2021 is primarily due to the Company's provision for an uncertain tax position (Note 20), debt assumed as part of the Urbn Leaf Acquisition and Loudpack Acquisition (Note 3 and 15), and the Company's excise, cultivation and property tax liabilities (Note 18).

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## 32. Financial Risk Management (continued)

### (a) Liquidity Risk (continued)

In addition to the commitments outlined in Note 12, *Right-of-use Assets and Lease Liabilities*, and Note 30, *Commitments and Contingencies*, the Company has the following contractual obligations as at September 30, 2022:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	> 5 Years	Total
Accounts payable and accrued liabilities	\$ 47,418,115	\$ -	\$ -	\$ -	\$ 47,418,115
Notes payable	8,611,301	26,606,079	100,000	40,000	35,357,380
Excise, cultivation and property tax liabilities	29,188,204	1,080,227	-	-	30,268,431
IRS Agreement	600,000	1,800,000	1,200,000	2,100,000	5,700,000
Term Loan	-	5,797,500	5,362,688	66,139,812	77,300,000
	<u>\$ 85,817,620</u>	<u>\$ 35,283,806</u>	<u>\$ 6,662,688</u>	<u>\$ 68,279,812</u>	<u>\$ 196,043,926</u>

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

Management believes there is sufficient capital to meet short-term obligations, after taking into account the cash flow requirements from operations, the expected timing of any payments, the expected relief of penalties on the cultivation and excise tax liabilities, access to capital and the Company's cash position as at September 30, 2022.

### (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, and investments and advances, 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 certain of its Notes payable have variable interest rates (Note 15).

#### (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 USD. The Company's primary exposure to foreign exchange risk and rate fluctuations relates to bank deposits held in Canada and transactions denominated in CAD.

# STATEHOUSE HOLDINGS INC.

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## 32. Financial Risk Management (continued)

### (c) Market Risk (continued)

#### *(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 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.

## 33. Segmented Information

The Company's operations comprise a single operating segment engaged in the cultivation, branding, manufacturing, wholesale distribution and retail sale of cannabis and cannabis products within the U.S. All revenues were generated in the United States for the three and nine months ended September 30, 2022 and 2021 and all property, plant and equipment and intangible assets are located in the United States.

## 34. Subsequent Events

The Company has evaluated subsequent events through November 22, 2022. Based upon this review, the Company did not identify any subsequent events that would have required adjustment or disclosure.