



# STATEHOUSE

H O L D I N G S

**STATEHOUSE HOLDINGS INC.**

**Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three Months Ended March 31, 2023 and 2022  
(Expressed in United States Dollars)**

**STATEHOUSE HOLDINGS INC.**  
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## **NOTICE TO READER**

Pursuant to Part 4, Subsection 4.3(3)(a) of National Instrument 51-102 - *Continuous Disclosure Obligations* ("NI 51-102"), if an auditor has not performed a review of the unaudited condensed interim consolidated financial statements required to be filed under Part 5, Subsection 4.3(1) of NI 51-102, the interim financial statements must be accompanied by a notice indicating that the unaudited condensed interim consolidated financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of StateHouse Holdings Inc. ("StateHouse", or the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the accompanying unaudited condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

## Management's Responsibility for Financial Reporting

To the Shareholders of StateHouse Holdings Inc. (the "Company"):

The accompanying unaudited condensed interim consolidated financial statements (the "unaudited condensed interim consolidated financial statements") were prepared by management of the Company ("Management") and were reviewed by the Audit Committee of the Company 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 the 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 the Company and were signed on behalf of Management by:

May 30, 2023

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

Kavi Bhai ("signed")  
Chief Financial Officer

# STATEHOUSE HOLDINGS INC.

Unaudited Condensed Interim Consolidated Statements of Financial Position  
As At March 31, 2023 and December 31, 2022  
(Expressed in United States Dollars, except share amounts)

	Note	March 31, 2023	December 31, 2022
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 2,639,681	\$ 2,812,241
Restricted cash	14	-	606,871
Accounts receivable, net	3	6,650,993	5,742,171
Inventories	4	9,211,891	9,785,093
Biological assets	5	510,094	441,144
Prepaid expenses and other current assets	6	4,659,772	5,884,801
Notes receivable	7	2,297,109	2,337,987
Assets held for sale	11	<u>2,262,628</u>	<u>2,183,880</u>
Total current assets		28,232,168	29,794,188
Property, plant and equipment, net	8	85,414,571	86,956,100
Right-of-use assets	10	19,682,113	20,273,218
Deposits and other assets		1,106,311	1,246,311
Due from other entities		943,231	723,162
Intangible assets	9	<u>27,069,000</u>	<u>27,069,000</u>
<b>TOTAL ASSETS</b>		<u>\$ 162,447,394</u>	<u>\$ 166,061,979</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	12	\$ 47,001,806	\$ 44,411,826
Notes payable - current	13	8,273,173	8,577,312
Excise, cultivation and property tax liabilities - current	15	24,870,963	24,717,641
Lease liabilities - current	10	2,013,139	1,985,267
Liabilities associated with assets held for sale	11	2,772,119	2,872,796
Income taxes payable		33,831,003	30,411,289
Provisions - current	17	<u>16,524,638</u>	<u>16,252,172</u>
Total current liabilities		135,286,841	129,228,303
Notes payable, net	13	27,773,549	27,303,699
Term loan, net	14	75,739,224	75,638,056
Provisions	17	4,800,000	4,900,000
Excise, cultivation and property tax liabilities	15	1,080,227	1,080,227
Derivative liabilities	16	4,503	977
Deferred tax liability	19	8,806,129	8,379,705
Lease liabilities	10	<u>29,714,115</u>	<u>30,203,326</u>
<b>TOTAL LIABILITIES</b>		283,204,588	276,734,293
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>			
Share capital	20	227,564,822	227,564,822
Contributed surplus	21	17,074,337	15,952,820
Reserve for warrants	22	1,243,128	1,709,844
Accumulated deficit		(369,405,126)	(358,801,715)
Non-controlling interests	23	<u>2,765,645</u>	<u>2,901,915</u>
<b>TOTAL SHAREHOLDERS' EQUITY (DEFICIT)</b>		<u>(120,757,194)</u>	<u>(110,672,314)</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		<u>\$ 162,447,394</u>	<u>\$ 166,061,979</u>

Commitments and contingencies (Note 26)

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 Months Ended March 31, 2023 and 2022  
(Expressed in United States Dollars, except share amounts)

	Note	For the Three Months Ended	
		March 31, 2023	March 31, 2022
Net revenue		\$ 24,658,096	\$ 17,267,361
Cost of goods sold		13,730,864	11,758,024
<b>Gross profit before biological asset adjustments</b>		10,927,232	5,509,337
Changes in fair value less costs to sell of biological asset transformation	5	(1,270,428)	(1,264,212)
Realized fair value amounts included in inventory sold		1,314,611	2,230,543
<b>Gross profit</b>		10,971,415	6,475,668
<b>Operating expenses</b>			
General and administrative	18	11,468,970	7,481,573
Professional fees		1,942,473	1,270,485
M&A and transaction expenses		-	2,702,067
Share-based compensation	21	795,395	1,243,735
Allowance for expected credit losses		793,695	130,440
Depreciation and amortization	8, 9 & 10	1,774,269	1,209,643
<b>Total operating expenses</b>		16,774,802	14,037,943
<b>Operating income (loss)</b>		(5,803,387)	(7,562,275)
Interest income (expense), net		(4,192,404)	(1,364,123)
Other income (expense), net		195,197	(925,508)
Gain on assignment of non-controlling interests		431,428	-
Fair value gain in other current assets and derivative liabilities	6 & 16	394,515	678,348
Foreign exchange gain (loss)		1,940,514	(49,576)
<b>Total other income (expense)</b>		(1,230,750)	(1,660,859)
<b>Net income (loss) before income taxes</b>		(7,034,137)	(9,223,134)
Income tax expense	19	(3,846,138)	(1,338,360)
<b>Net income (loss)</b>		(10,880,275)	(10,561,494)
Net loss attributable to non-controlling interests		(276,864)	(149,196)
<b>Net income (loss) attributable to StateHouse Holdings Inc.</b>		<u>\$ (10,603,411)</u>	<u>\$ (10,412,298)</u>
<b>Weighted average number of shares outstanding</b>			
Basic and diluted	24	213,813,888	104,111,060
<b>Net income (loss) per share</b>			
Basic and diluted	24	\$ (0.05)	\$ (0.10)
<b>Comprehensive income (loss):</b>			
Net income (loss)		\$ (10,880,275)	\$ (10,561,494)
Comprehensive income (loss) attributable to non-controlling interests		(276,864)	(149,196)
<b>Comprehensive income (loss) attributable to StateHouse Holdings Inc. shareholders</b>		<u>\$ (10,603,411)</u>	<u>\$ (10,412,298)</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 (Deficit)

For the Three Months Ended March 31, 2023 and 2022

(Expressed in United States Dollars, except share amounts)

	Note	Share capital	Contributed Surplus	Warrants	Accumulated Deficit	Subtotal	Non-controlling interests	Equity incl. non-controlling interests
<b>Balance, January 1, 2022</b>		\$ 150,373,620	\$ 10,553,806	\$ 2,233,556	\$ (118,415,683)	\$ 44,745,299	\$ 2,857,465	\$ 47,602,764
Exercise of stock options	21	1,250	-	-	-	1,250	-	1,250
Share-based compensation	21	-	1,243,735	-	-	1,243,735	-	1,243,735
Purchase of business - initial equity related to non-controlling interests	20	-	-	-	-	-	896,521	896,521
Issuance of shares in acquisitions		34,198,113	-	-	-	34,198,113	-	34,198,113
Expiry of Broker Warrants		-	1,134,112	(1,134,112)	-	-	-	-
Net income (loss) for the period		-	-	-	(10,412,298)	(10,412,298)	(149,196)	(10,561,494)
<b>Balance, March 31, 2022</b>		<u>\$ 184,572,983</u>	<u>\$ 12,931,653</u>	<u>\$ 1,099,444</u>	<u>\$ (128,827,981)</u>	<u>\$ 69,776,099</u>	<u>\$ 3,604,790</u>	<u>\$ 73,380,889</u>
<b>Balance, January 1, 2023</b>		\$ 227,564,822	\$ 15,952,820	\$ 1,709,844	\$ (358,801,715)	\$ (113,574,229)	\$ 2,901,915	\$ (110,672,314)
Share-based compensation	21	-	795,395	-	-	795,395	-	795,395
Expiry of Bank Warrants	20	-	466,716	(466,716)	-	-	-	-
Assignment of non-controlling interests	23	-	(140,594)	-	-	(140,594)	140,594	-
Net income (loss) for the period		-	-	-	(10,603,411)	(10,603,411)	(276,864)	(10,880,275)
<b>Balance, March 31, 2023</b>		<u>\$ 227,564,822</u>	<u>\$ 17,074,337</u>	<u>\$ 1,243,128</u>	<u>\$ (369,405,126)</u>	<u>\$ (123,522,839)</u>	<u>\$ 2,765,645</u>	<u>\$ (120,757,194)</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 Three Months Ended March 31, 2023 and 2022  
(Expressed in United States Dollars, except share amounts)

	Note	For the Three Months Ended	
		March 31, 2023	March 31, 2022
<b>Operating Activities</b>			
Net income (loss) for the period		\$ (10,880,275)	\$ (10,561,494)
<b>Adjustments to reconcile net loss to cash flow:</b>			
Share-based compensation	21	795,395	1,243,735
Depreciation and amortization	8, 9 & 10	2,227,605	1,718,885
Changes in fair value less costs to sell of biological asset transformation	5	1,270,428	1,264,212
Fair value gain in other current assets and derivative liabilities	16	(394,515)	(678,348)
Provision for expected credit losses	3	793,695	130,440
Interest income on notes receivable	25	(40,122)	(266,624)
Amortization of other current assets and debt issuance costs		101,168	577,994
Accrued interest on lease liabilities	10	793,380	415,643
Loss on disposal of property, plant and equipment		21,529	77,163
Change in assets held for sale		(179,425)	-
Foreign exchange (gain) loss		(1,940,514)	49,576
		<u>(7,431,651)</u>	<u>(6,028,818)</u>
Changes in non-cash working capital:			
Accounts receivable, net	3	(1,702,046)	1,041,997
Inventories	4	573,202	(5,367)
Biological assets	5	(1,339,378)	(1,599,297)
Prepaid expenses	6	1,619,922	468,193
Notes receivable	7	81,000	-
Due from other entities		(220,069)	(10,371)
Deposits and other assets		140,000	-
Accounts payable and accrued liabilities	12	2,582,459	4,083,714
Excise, cultivation and property tax liabilities	15	153,322	-
Income tax payable	19	3,419,714	1,201,043
Provisions	17	172,466	447,187
Accrued interest on note payable		165,711	65,000
Deferred tax liability	19	426,424	35,916
		<u>(1,358,924)</u>	<u>(300,803)</u>
<b>Cash Flows used in Operating Activities</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 Three Months Ended March 31, 2023 and 2022  
(Expressed in United States Dollars, except share amounts)

	Note	For the Three Months Ended	
		March 31, 2023	March 31, 2022
<b>Financing Activities</b>			
Net proceeds (repayment) from revolving credit facility		-	(12,000,000)
Net proceeds from term loan	14	-	14,648,017
Repayments of notes payable		-	(10,000)
Payments of principal portion of lease liabilities	10	(1,254,719)	(735,418)
Proceeds from exercise of stock options	21	-	1,250
<b>Cash Flows provided by (used in) Financing Activities</b>		<u>(1,254,719)</u>	<u>1,903,849</u>
<b>Investing Activities</b>			
Cash received in Urbn Leaf Acquisition		-	3,268,427
Purchases of property, plant and equipment	8	(116,500)	(75,411)
<b>Cash Flows provided by (used in) Investing Activities</b>		<u>(116,500)</u>	<u>3,193,016</u>
Increase (decrease) in cash and restricted cash		(2,730,143)	4,796,062
Effects of foreign exchange on cash and restricted cash		1,950,712	(114,214)
Cash and restricted cash, beginning of period		3,419,112	9,091,405
<b>Cash and restricted cash, end of period</b>		<u>\$ 2,639,681</u>	<u>\$ 13,773,253</u>
<b>Cash and restricted cash consisted of the following:</b>			
Cash		2,639,681	10,923,177
Restricted cash - interest reserves		-	2,850,076
		<u>\$ 2,639,681</u>	<u>\$ 13,773,253</u>
<b>Supplementary Information</b>			
Cash paid during the period for:			
Interest		\$ 2,639,672	\$ 387,944
<b>Non-Cash Investing and Financing Activities</b>			
Expiry of Broker Warrants	20 & 22	\$ -	(1,134,112)
Expiry of Bank Warrants	22	(466,716)	-

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 Months Ended March 31, 2023 and 2022  
(Expressed in United States Dollars, except share amounts)

## 1. Nature of Operations

StateHouse Holdings 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) cannabis processing, extraction and product manufacturing, including "white label" production of consumer packaged cannabis products for other cannabis companies, and (iii) wholesale sales, including the sale of bulk cannabis flower and trim into the wholesale market. 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 March 31, 2023, 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;
- 21% interest in FGW Haight Inc. ("FGW"), a company which operates a Harborside-branded retail dispensary in the Haight Ashbury district of San Francisco (the "FGW Dispensary"). FGW opened the FGW Dispensary under the Harborside brand in April 2022; and,
- Direct to consumer retail delivery services which cover the greater San Francisco Bay Area of California (from its Harborside-branded retail stores in Oakland and San Jose) and the Grover Beach and Bay Park areas (from its Urbn Leaf-branded stores in each of these areas). The Company's direct to consumer offerings include an integrated ecommerce platform offering in-store pickup, curbside pick-up, express delivery and scheduled delivery, allowing the Company to extend its reach beyond physical retail locations and expand interactions with customers.

In addition, on January 9, 2023, the Company opened a dispensary under the Urbn Leaf brand in West Hollywood, California ("Urbn Leaf WeHo"). The Company will operate Urbn Leaf WeHo pursuant to the terms of a management service agreement between UL Management LLC and PDLP JV, LLC (the "Urbn Leaf WeHo Service Agreement"). The Urbn Leaf WeHo Service Agreement has an initial term of five years, and is subject to three automatic renewals of five years for a total of 20 years. The Company has a right to acquire a 50% ownership in PDLP JV, LLC.

As at March 31, 2023, the Company owned and operated a cultivation and production facility in Salinas, California (the "Salinas Production Campus"), a manufacturing facility in Greenfield, California (the "Greenfield Production Campus"), and a distribution center in San Jose, California. During the three months ended March 31, 2023, the Company moved the Greenfield Production Campus cultivation activities from Greenfield to the Salinas Production Campus.

The Company's high quality integrated seed-to-sale operations are focused on building winning brands which are supported by its omni-channel ecosystem. The Company owns a number of different cannabis brands, including: "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") into subordinate voting shares ("SVS") (the "Mandatory Conversion"). Pursuant to the Mandatory Conversion, each holder of MVS received 100 SVS for each MVS held.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 1. Nature of Operations (continued)

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") on a one for one basis. The Name Change was approved by shareholders of the Company at a special meeting of shareholders held on February 22, 2022. The Reclassification was approved by shareholders of the Company at the annual and special meeting of shareholders held on June 23, 2022. Effective 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 8939 La Mesa Blvd. Suite 2, La Mesa, California 91942, United States.

### 2. Summary of Significant Accounting Policies

#### 2.1 Statement of Compliance and Basis of Measurement

The Company's unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 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, 2022, 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 May 30, 2023.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern, using the historical cost basis, except for certain financial instruments and biological assets, which are measured at fair value.

#### 2.2 Going Concern

As at March 31, 2023, the Company had cash of \$2,639,681 and a working capital deficit of \$107,054,673. Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted into cash within one year. The Company has experienced recurring operating losses of \$10,603,411 and \$10,412,298 for the three months ended March 31, 2023 and 2022, respectively, and has an accumulated operating deficit of \$369,405,126 as at March 31, 2023. In addition, the Company had negative cash flows from operating activities for the three months ended March 31, 2023 of \$1,358,924. Management anticipates that the Company will continue to incur losses until such time as revenues exceed operating costs and the Company is able to complete its restructuring plans, as further described below. These factors create material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

# STATEHOUSE HOLDINGS INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
For the Three Months Ended March 31, 2023 and 2022  
(Expressed in United States Dollars, except share amounts)

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

### 2.2 Going Concern (continued)

The Company's plan to ensure operational continuity include the implementation of its cost savings plan, and various strategic actions, including the divestiture of non-core assets including but not limited to the current assets held for sale, as well as its on-going revenue strategies to increase market share and retail, manufacturing and wholesale revenue. As at May 19, 2023, the Company obtained an extension on its Senior Secured Debt (as defined below), however, the Company will need to refinance or obtain additional funding in order to pay down the Senior Secured Debt at the extended maturity date of June 5, 2023 (Note 13 and 30). The Company's annual operating plan for fiscal year 2023 estimates that the Company will be able to sustain current operations. However, the Company's cash needs are significant and not achievable with the current cash flow. Additionally, management expects to continue to manage the Company's operating expenses and reduce its projected cash requirements through permanently or temporarily closing retail dispensaries that are under performing, and/or implementing other restructuring activities. There are no assurances that the Company will be successful in achieving these goals.

The accompanying unaudited condensed interim consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern. The application of the going-concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will continue to be successful in the future.

### 2.3 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.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

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

#### 2.4 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 Owned (%)	Percentage Owned (%)
			March 31, 2023	December 31, 2022
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	100
680 Broadway Master, LLC	California, U.S.	Operating Company	100	100
909 West Vista Way LLC	California, U.S.	Real Estate Holding Company	100	100
Accucanna Holdings Inc.	California, U.S.	Holding Company	100	100
Accucanna LLC	California, U.S.	Operating Company	100	100
Accucanna RE, LLC	California, U.S.	Operating Company	100	100
Auric Valley, Inc.	California, U.S.	Holding Company	100	100
Banana LLC	California, U.S.	Operating Company	75	75
Belling Distribution, Inc.	California, U.S.	Operating Company	100	100
Benmore LPFN, LLC	Delaware, U.S.	Holding Company	100	100
Calgen Trading Inc.	California, U.S.	Operating Company	100	100
CDRS Investor LLC	California, U.S.	Holding Company	100	100
CDRS Owner LLC	Delaware, U.S.	Holding Company	100	100
Encinal Productions RE, LLC	California, U.S.	Operating Company	100	100
Evergreen LPFN, LLC	Delaware, U.S.	Holding Company	100	100
FFC1, LLC	California, U.S.	Holding Company	100	100
FGW Haight Inc.	California, U.S.	Operating Company	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	100
Greenfield Organix, Inc.	California, U.S.	Operating Company	100	100
Greenfield Prop Owner, LLC	California, U.S.	Real Estate Holding Company	100	100
Greenfield Prop Owner II, LLC	California, U.S.	Real Estate Holding Company	100	100
Haight Acquisition Corporation	Delaware, U.S.	Holding Company	100	100
JLM Investment Group, LLC	California, U.S.	Holding Company	67	67
Lafayette Street Property Management LLC	California, U.S.	Operating Company	-	90
LGC Holdings USA, Inc.	Nevada, U.S.	Holding Company	100	100
LGC LOR DIS 1, LLC	Oregon, U.S.	Operating Company	100	100
LGC LOR DIS 2, LLC	Oregon, U.S.	Operating Company	100	100
Lineage GCL California, LLC	California, U.S.	Holding Company	100	100
Lineage GCL Oregon Corporation	Oregon, U.S.	Holding Company	100	100
LPF 4th Street, LLC	California, U.S.	Holding Company	100	100
LPF Bellflower, LLC	California, U.S.	Holding Company	100	100
LPF Consulting Group, LLC	California, U.S.	Holding Company	100	100
LPF Michigan LLC	California, U.S.	Holding Company	100	100
LPF Ohio, LLC	California, U.S.	Holding Company	100	100
LPF RE Manager, LLC	California, U.S.	Operating Company	100	100
LP-KP IP Holdings, LLC	California, U.S.	Holding Company	100	100

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

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

#### 2.4 Basis of Consolidation (continued)

Name	Jurisdiction	Purpose	Percentage Owned (%)	Percentage Owned (%)
			March 31, 2023	December 31, 2022
Lunar Management, LLC	California, U.S.	Holding Company	100	100
Oakland Machining Supply SLB LLC	California, U.S.	Holding Company	100	100
Ocean Ranch LPFN, LLC	California, U.S.	Holding Company	100	100
Patients Mutual Assistance Collective Corporation	California, U.S.	Operating Company	100	100
Redhunt Corporation	California, U.S.	Holding Company	100	100
San Jose Wellness Solutions Corp.	California, U.S.	Operating Company	100	100
San Leandro Wellness Solutions Inc.	California, U.S.	Operating Company	100	100
SaVaCa, LLC	California, U.S.	Holding Company	100	100
Savature Inc.	California, U.S.	Operating Company	100	100
SBC Management LLC	California, U.S.	Management Company	100	100
Sublimation Inc.	Delaware, U.S.	Holding Company	100	100
ULBP Inc.	California, U.S.	Operating Company	100	100
ULRB LLC	California, U.S.	Operating Company	80	80
UL Benicia LLC	California, U.S.	Operating Company	70	70
UL Chula Two LLC	California, U.S.	Operating Company	51	51
UL Holdings Inc.	California, U.S.	Holding Company	100	100
UL Kenamar LLC	California, U.S.	Operating Company	100	100
UL La Mesa LLC	California, U.S.	Operating Company	60	60
UL Management LLC	California, U.S.	Management Company	100	100
UL San Jose LLC	California, U.S.	Operating Company	100	100
UL Visalia LLC	California, U.S.	Operating Company	80	80
Unite Capital Corp.	Ontario, Canada	Holding Company	100	100
Uprooted, Inc.	California, U.S.	Operating Company	100	100
Uprooted LM LLC	California, U.S.	Operating Company	100	100

The unaudited condensed interim consolidated financial statements as at March 31, 2023 and December 31, 2022 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has "control", as such term is 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 Company's consolidated entities were under control, as defined in IFRS 10, by the Company, 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 unaudited condensed interim consolidated financial statements. The 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.

# STATEHOUSE HOLDINGS INC.

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

### 2.5 COVID-19 Estimation Uncertainty

The global pandemic outbreak of the novel strain of coronavirus ("COVID-19") 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 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. Despite the World Health Organization accepting the recommendation that COVID-19 no longer fit the definition of a pandemic on May 5, 2023, COVID-19 has negatively impacted many industries directly or indirectly, including the regulated cannabis industry. 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 will or may impact the Company is uncertain and these factors are beyond the Company's control.

### 2.6 Summary of Significant Accounting Policies

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, 2022.

### 2.7 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 the changes in fair value of 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 March 31, 2023 and December 31, 2022, 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.

# STATEHOUSE HOLDINGS INC.

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

### 2.7 Financial Instruments (continued)

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

A financial derivative, such as warrants or stock options, which will be settled with 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 stock 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 March 31, 2023:

<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.



# STATEHOUSE HOLDINGS INC.

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

### 2.7 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 thereunder. 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.

### 2.8 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.

#### *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 grow cannabis to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle of such biological assets.

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

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

- Estimating the stage of growth of cannabis up to the point of harvest;
- Pre-harvest and post-harvest costs;
- Expected selling prices;
- Expected yields for cannabis plants to be harvested, by strain of plant; and
- Wastage of cannabis plants at various stages.

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

# STATEHOUSE HOLDINGS INC.

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

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

#### *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.

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

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

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

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

Long-lived assets, including property, plant and equipment and intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit ("CGU") is the greater of its fair value less costs to sell or its value in use. If the carrying amount of an asset or a CGU exceeds its recoverable amount, an impairment charge is recognized immediately as a loss for the amount by which the carrying amount of the asset exceeds the recoverable amount.

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

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

#### *Leases*

Each capitalized lease is evaluated to determine if the Company would exercise any 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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Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
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## 2. Summary of Significant Accounting Policies (continued)

### 2.8 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 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.

#### *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 March 31, 2023 and December 31, 2022 relates to uncertain tax positions under Internal Revenue Code §280E ("IRC §280E") for Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness Solutions Corp. ("SJW"), permanent and temporary differences on the Company's federal income tax returns and underpayments of federal income tax liabilities.

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

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

#### *Provisions (continued)*

Many of the central issues relating to the interpretations of IRC §280E remain unsettled, and there are critical accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E). The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 - *Uncertainty over Income Tax Treatment* ("IFRIC 23") and, although the Company strongly disagrees with the positions taken by the Internal Revenue Service ("IRS") and the findings of the U.S. Tax Court, it has determined that a reserve for uncertain tax position should be recorded for all years subject to statutory review. On July 28, 2022, the Company entered into a partial payment and installment agreement with the IRS (the "IRS Agreement") in relation to a portion of the uncertain tax positions for PMACC (Note 17). The amount recognized as a provision reflects the Company's obligations due under the IRS Agreement and management's best estimate of the consideration required to settle the remaining uncertain tax positions at the reporting date, considering the risks and uncertainties surrounding the obligation.

#### *Going concern*

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

As indicated in Note 17, the Company has recognized a provision for uncertain tax positions which are related to PMACC and SJW. The Company has entered into the IRS Agreement for a portion of the uncertain tax position related to PMACC. The Company will be resolving the portion of uncertain tax position subject to the IRS Agreement through monthly installment payments of \$50,000 beginning August 1, 2022 (Note 17).

Outside of the Company's IRS Agreement for PMACC, the timing of additional payments arising from these or any future uncertain tax positions is expected to exceed twelve months from the date that these unaudited condensed interim consolidated financial statements were authorized to be issued. The final amount to be paid for all uncertain tax positions is uncertain.

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

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.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

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

#### 2.9 Adoption of New Accounting Policies

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

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

In January 2020, the IASB issued amendments to IAS 1 - *Classification of Liabilities as Current or Non-current*. These amendments clarify the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Pursuant to the new requirements, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The adoption of the standard did not have a material impact on the Company's unaudited condensed interim consolidated financial statements.

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

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

- Replacing the requirement to disclose "significant" accounting policies under IAS 1 with a requirement to disclose "material" accounting policies. Under IAS 1, an accounting policy would be material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general-purpose financial statements would make on the basis of those financial statements.
- Providing guidance in IFRS Practice Statement 2 to explain and demonstrate the application of the four-step materiality process to accounting policy disclosure.

The adoption of the standard did not have a material impact on the Company's unaudited condensed interim consolidated financial statements.

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

In February 2021, the IASB issued amendments to IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments introduce a new definition of "accounting estimates" to replace the definition of "change in accounting estimates" and also include clarifications intended to help entities distinguish changes in accounting policies from changes in accounting estimates. The adoption of the standard did not have a material impact on the Company's unaudited condensed interim consolidated financial statements.

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

In May 2021, the IASB issued amendments to the recognition exemptions under IAS 12 - *Income Taxes* ("IAS 12"). These amendments narrowed the scope of the recognition exemption to require an entity to recognize deferred tax on the initial recognition of a transaction, 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 adoption of the standard did not have a material impact on the Company's unaudited condensed interim consolidated financial statements.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

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

#### 2.10 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 on the Company have been excluded in these unaudited condensed interim consolidated financial statements.

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*

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

### 3. Accounts receivable, net

The Company's accounts receivable, net was comprised of the following as at March 31, 2023 and December 31, 2022:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Trade receivables	\$ 10,262,851	\$ 8,640,066
Sales tax receivables	19,437	10,688
Total	10,282,288	8,650,754
Provision for credit loss	<u>(3,631,295)</u>	<u>(2,908,583)</u>
Total accounts receivable, net	<u>\$ 6,650,993</u>	<u>\$ 5,742,171</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 March 31, 2023 and December 31, 2022, there was \$318,375 and \$229,210, respectively, outstanding from debit card processors that is included in trade receivables.

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.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

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

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

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Balance, beginning of period	\$ 2,908,583	\$ 617,821
Provision for expected credit losses assumed in acquisitions	-	749,553
Current period additions to provision for expected credit losses	768,967	2,303,583
Amounts reversed	<u>(46,255)</u>	<u>(762,374)</u>
Balance, end of period	<u>\$ 3,631,295</u>	<u>\$ 2,908,583</u>

The Company's aging of accounts receivable was as follows as at March 31, 2023 and December 31, 2022:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Current	\$ 3,994,700	\$ 2,070,030
1 - 30 days	1,060,557	1,288,714
31 - 60 days	470,785	598,195
61 - 90 days	275,254	677,243
Over 90 days	<u>4,480,992</u>	<u>4,016,572</u>
Total	<u>\$ 10,282,288</u>	<u>\$ 8,650,754</u>

### 4. Inventories

The Company's inventory was comprised of the following items as at March 31, 2023 and December 31, 2022:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Raw materials	\$ 1,174,932	\$ 910,961
Work-in-process	3,101,225	4,161,307
Finished goods	<u>4,935,734</u>	<u>4,712,825</u>
Total	<u>\$ 9,211,891</u>	<u>\$ 9,785,093</u>

During the three months ended March 31, 2023 and 2022, inventory expensed to cost of goods sold was approximately \$11,945,000 and \$10,426,000, 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. There was no impairment recorded during the three months ended March 31, 2023 and 2022.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 5. Biological Assets

Biological assets consist of cannabis plants. As part of the integration with Loudpack, during the three months ended March 31, 2023, the Company moved the Greenfield Production Campus cultivation activities from Greenfield to the Salinas Production Campus.

The changes in the carrying value of biological assets was as follows:

	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Balance, beginning of period	\$ 441,144	\$ 443,839
Acquired as part of acquisitions	-	101,543
Costs capitalized	2,760,500	14,045,709
Changes in fair value less costs to sell due to biological asset transformation	(1,270,428)	(7,752,644)
Transferred to inventory upon harvest	<u>(1,421,122)</u>	<u>(6,397,303)</u>
Balance, end of period	<u>\$ 510,094</u>	<u>\$ 441,144</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:

<b>Inputs and assumptions</b>	<b>Description</b>	<b>Correlation between inputs and fair value</b>
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).



# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 5. Biological Assets (continued)

Biological assets as at March 31, 2023 and December 31, 2022 include an allocation of depreciation of \$161,622 and \$194,385, respectively.

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 March 31, 2023		As at December 31, 2022	
		Input	10% change	Input	10% change
i	Weighted average of expected loss of plants until harvest [a]	7%	\$ 3,965	5%	\$ 1,975
ii	Expected yields (dry grams of cannabis per plant) [b]	75 grams	\$ 51,017	71 grams	\$ 41,008
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	39%	\$ 51,017	50%	\$ 41,008
iv	Estimated selling price (per gram) [c]	\$0.79 per gram dried flower \$0.00 per gram dried trim	\$ 78,949	\$0.64 per gram dried flower \$0.01 per gram dried trim	\$ 71,839
v	After harvest cost to complete and sell (per gram)	\$0.28 per gram dried flower \$0.00 per gram dried trim	\$ 27,932	\$0.28 per gram dried flower \$0.00 per gram dried trim	\$ 30,831

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:

		As at December 31, 2022	
	Assumptions:	Input	10% change
i	Weighted average of expected loss of plants until harvest [a]	0%	\$ -
ii	Expected yields (dry grams of cannabis per plant) [b]	33 grams	\$ 3,154
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	91%	\$ 3,154
iv	Estimated selling price (per gram) [c]	\$0.49 per gram dried flower \$0.04 per gram dried trim	\$ 5,514
v	After harvest cost to complete and sell (per gram)	\$0.23 per gram dried flower \$0.02 per gram dried trim	\$ 2,360

[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 March 31, 2023 and December 31, 2022, it was expected the Company's biological assets would yield 35 and 42 grams of dried flower per plant, respectively, and 40 and 62 grams of dried trim per plant, respectively.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 5. Biological Assets (continued)

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

The Company estimates the harvest yields for cannabis at various stages of growth. As at March 31, 2023 and December 31, 2022, it is expected that the Company's biological assets will yield approximately 2,548,836 and 2,305,602 grams of dry cannabis flower, respectively, and 2,977,308 and 3,259,309 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.

### 6. Prepaid Expenses and Other Current Assets

As at March 31, 2023 and December 31, 2022, prepaid expenses and other current assets were comprised of the following:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Excise taxes	\$ 702,882	\$ 675,584
Insurance and rent	869,520	2,116,019
Advances made to suppliers and consultants	374,370	382,637
Payroll and income taxes	34,096	34,096
Taxes and fees	80,834	150,506
Licenses and other	<u>738,016</u>	<u>1,064,519</u>
Total prepaid expenses	2,799,718	4,423,361
Conversion option embedded in the FGW Note	<u>1,860,054</u>	<u>1,461,440</u>
Total prepaid expenses and other current assets	<u>\$ 4,659,772</u>	<u>\$ 5,884,801</u>

On December 18, 2020, the Company entered into a securities purchase agreement with FGW (the "FGW Agreement"). Pursuant to the FGW Agreement, the Company agreed to acquire an initial ownership interest of 21% in FGW and the right to acquire an additional 29.1% interest in FGW (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"). The FGW Note bears interest at 4.0% per annum and matures on June 30, 2031.

On February 15, 2022, the Company entered into a definitive securities purchase agreement with FGW (the "Subsequent FGW Agreement"). Pursuant to the Subsequent FGW Agreement, the Company agreed to acquire a further 29.9% interest in FGW (the "Subsequent Shares"), subject to certain material closing conditions, including approvals from regulatory authorities and converting the FGW Note in accordance with its terms. The acquisition of the Subsequent Shares and conversion of the FGW Note will increase the Company's interest in FGW to 80%. The aggregate purchase price for the Subsequent Shares is equal to \$1,300,650. Pursuant to the terms of the Subsequent FGW Agreement, the purchase price for the Subsequent Shares will 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 Shares, multiplied by 100; (ii) C\$150 per MVS; or (iii) such other price as may be approved by the CSE. Prior to the closing of the acquisition of the Subsequent Shares, the Subsequent FGW Agreement will be amended to reflect the occurrence of the Mandatory Conversion and the Reclassification, as applicable, and in particular the issuance of SVS instead of MVS as consideration for the Subsequent Shares.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 6. Prepaid Expenses and Other Current Assets (continued)

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. On February 15, 2023, the Company received regulatory approvals for the Subsequent Shares. As at March 31, 2023, the Company had not yet converted the FGW Note or acquired the Subsequent Shares.

As at March 31, 2023 and December 31, 2022, the Company used the Monte Carlo Simulation option-pricing model (the "Monte Carlo Model") to estimate the fair value of the conversion option embedded in the FGW Note. Changes in fair value of \$398,614 and \$169,607 for the three months ended March 31, 2023 and 2022, respectively, are 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).

Effective January 1, 2023, the remittance of excise tax shifted from the distributors to retailers. The Company will apply the prepaid excise tax as at March 31, 2023 against the tax liability.

### 7. Notes Receivable

On April 16, 2021, UL Holdings Inc. ("Urbn Leaf") entered into a membership interest repurchase agreement (the "Membership Interest Repurchase Agreement") with 2220 NBC, LLC ("NBC"). Pursuant to the terms of the Membership Interest Repurchase Agreement, NBC agreed to repurchase Urbn Leaf's 33.3% membership interest for \$1,150,000.

On March 1, 2022, pursuant to the terms of a definitive agreement dated November 29, 2021 between the Company, Urbn Leaf, Saturn Merger Sub Inc. and Momentum Capital Group, LLC, in its capacity as the representative of the shareholders of Urbn Leaf, the Company acquired 100% of the equity interest of Urbn Leaf (the "Urbn Leaf Acquisition"). The note receivable associated with the Membership Interest Repurchase Agreement was assumed in connection with the Urbn Leaf Acquisition.

The note receivable accrues interest at a rate of 10% per annum on the outstanding daily unpaid principal amount. Initial payments on the note receivable 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 March 31, 2023, principal and accrued interest amounted to \$1,019,109.

On March 24, 2022, the Company entered into a settlement agreement (the "Altai Settlement Agreement") with Altai Partnership, LLC ("Altai"). Pursuant to the terms of the Altai Settlement Agreement, Altai agreed to pay an aggregate of \$1,250,000 to the Company to settle amounts owed by Altai in connection with advances that had been made by the Company in relation to a binding letter of intent for the Company's acquisition of Lucrum Enterprises Inc. d/b/a LUX Cannabis Dispensary ("LUX") in 2019. In April 2022, the Company received the first installment payable by Altai pursuant to the terms of the Altai Settlement Agreement, in the amount of \$500,000. On May 1, 2022, the Company and Altai entered into a convertible secured promissory note (the "Altai Note") for the remaining \$750,000 owed pursuant to the terms of the Altai Settlement Agreement. The principal owed under the Altai Note is payable over 36 months beginning on May 15, 2022. As at March 31, 2023, the outstanding principal owed under the Altai Note amounted to \$728,000.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 7. Notes Receivable (continued)

On February 23, 2023, the Company entered into a settlement agreement (the "Fang Settlement Agreement") with Alexander Fang ("Mr. Fang") and Sublime Concentrates, Inc. Pursuant to the terms of the Fang Settlement Agreement, Mr. Fang is required to make certain cash payments in the amount of \$550,000 to the Company in exchange for the release of any claims in connection with Alexander Fang v. Sublime Machining, Inc. and Sublime Concentrates, Inc. v. Sublime Machining Inc. (Note 26). The amounts owed pursuant to the terms of the Fang Settlement Agreement are payable by Mr. Fang on the following schedule: \$50,000 paid within 45 days of the release, \$425,000 payable in installments of \$7,083.33 beginning on April 15, 2023 until March 15, 2028 and a \$75,000 balloon payment due on April 15, 2028. Late payments bear interest at 10% per annum. As at March 31, 2023, the outstanding principal owed under the Fang Settlement Agreement was \$550,000.

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

As at March 31, 2023 and December 31, 2022, the Company's property, plant and equipment, net consisted of the following:

	Land	Retail and Agricultural Buildings	Agricultural and Manufacturing Equipment	CIP	Furniture, Fixtures, and Equipment	Leasehold Improvements	Total
<b>At Cost</b>							
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	-	-	76,102	342,297	71,238	236,141	725,778
Business acquisitions	16,448,146	35,454,332	4,849,940	1,456,832	4,948,421	6,986,379	70,144,050
Reclassification*	-	-	-	-	(59,558)	(151,522)	(211,080)
Disposals and transfers	-	-	(879,257)	(131,504)	(368,076)	(216,691)	(1,595,528)
Reclass on completed phase of construction	-	-	-	(2,827,201)	306,636	2,520,565	-
As at December 31, 2022	20,162,718	50,500,156	11,032,673	822,570	7,376,290	10,973,113	100,867,520
Additions	-	103,250	-	13,250	-	-	116,500
Disposals and transfers	-	-	-	-	(28,029)	-	(28,029)
As at March 31, 2023	<u>\$ 20,162,718</u>	<u>\$ 50,603,406</u>	<u>\$ 11,032,673</u>	<u>\$ 835,820</u>	<u>\$ 7,348,261</u>	<u>\$ 10,973,113</u>	<u>\$ 100,955,991</u>
<b>Accumulated depreciation</b>							
As at December 31, 2021	\$ -	\$ 2,788,103	\$ 3,934,513	\$ -	\$ 1,370,952	\$ 195,122	\$ 8,288,690
Disposals and transfers	-	-	(108,520)	-	(61,925)	(21,646)	(192,091)
Reclassification*	-	-	-	-	(11,831)	(7,916)	(19,747)
Depreciation expense	-	1,641,007	2,156,792	-	1,084,491	952,278	5,834,568
As at December 31, 2022	-	4,429,110	5,982,785	-	2,381,687	1,117,838	13,911,420
Disposals and transfers	-	-	-	-	(6,500)	-	(6,500)
Depreciation expense	-	703,714	323,795	-	324,101	284,890	1,636,500
As at March 31, 2023	<u>\$ -</u>	<u>\$ 5,132,824</u>	<u>\$ 6,306,580</u>	<u>\$ -</u>	<u>\$ 2,699,288</u>	<u>\$ 1,402,728</u>	<u>\$ 15,541,420</u>
<b>Net Book Value</b>							
As at December 31, 2022	<u>20,162,718</u>	<u>46,071,046</u>	<u>5,049,888</u>	<u>822,570</u>	<u>4,994,603</u>	<u>9,855,275</u>	<u>86,956,100</u>
As at March 31, 2023	<u>\$ 20,162,718</u>	<u>\$ 45,470,582</u>	<u>\$ 4,726,093</u>	<u>\$ 835,820</u>	<u>\$ 4,648,973</u>	<u>\$ 9,570,385</u>	<u>\$ 85,414,571</u>

\* Reclassification includes the amounts transferred to assets held for sale (Note 11).

# STATEHOUSE HOLDINGS INC.

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## 8. Property, Plant and Equipment, net (continued)

Depreciation expense relating to property, plant and equipment, net for the three months ended March 31, 2023 and 2022 was as follows:

	<u>March 31, 2023</u>	<u>March 31, 2022</u>
Cost of goods sold - wholesale	\$ 453,336	\$ 509,243
Expenses	<u>1,183,164</u>	<u>282,482</u>
Total depreciation and amortization relating to property, plant and equipment, net	<u>\$ 1,636,500</u>	<u>\$ 791,725</u>

## 9. Intangible Assets

As at March 31, 2023 and December 31, 2022, the Company's intangible assets consisted of \$27,069,000 related to licenses. There were no indicators of impairment during the period end.

Amortization expense of \$nil and \$559,698 was recorded for the three months ended March 31, 2023 and 2022, respectively.

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

### *Right-of-use Assets*

As at March 31, 2023 and December 31, 2022, 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, 2022 and March 31, 2023	<u>\$ 23,820,261</u>
<b>Accumulated amortization</b>	
Balance as at December 31, 2022	3,547,043
Amortization expense	<u>591,105</u>
Balance as at March 31, 2023	<u>\$ 4,138,148</u>
<b>Net book value</b>	
As at December 31, 2022	<u>20,273,218</u>
As at March 31, 2023	<u>\$ 19,682,113</u>

### *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. There were no new leases during the three months ended March 31, 2023. The incremental borrowing rate for additions during the three months ended March 31, 2022 was 9.5%.

# STATEHOUSE HOLDINGS INC.

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## 10. Right-of-use Assets and Lease Liabilities (continued)

### *Lease Liabilities (continued)*

The following is a summary of the activity in the Company's lease liabilities for the three months ended March 31, 2023:

Ending lease liabilities as at December 31, 2022	\$ 32,188,593
Lease payments	(1,254,719)
Interest expense	<u>793,380</u>
Ending lease liabilities as at March 31, 2023	31,727,254
Less: current portion	<u>(2,013,139)</u>
Non-current lease liabilities	<u>\$ 29,714,115</u>

The maturity of contractual undiscounted lease obligation payments are as follows:

Due within one year	\$ 5,345,014
Due within one to five years	19,211,818
Due after five years	<u>26,788,439</u>
Total undiscounted lease liabilities	51,345,271
Less interest	<u>(19,618,017)</u>
Total present value of minimum lease payments	<u>\$ 31,727,254</u>

The Company also leases office and other retail space from related parties (Note 25). The Company recognized no material expenses related to short-term leases and leases of low-value assets for the three months ended March 31, 2023 and 2022.

## 11. Assets and Liabilities Held for Sale

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 value less costs to sell. The Company did not recognize any impairment loss associated with assets held for sale as at March 31, 2023.

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, 2022	\$ 2,183,880
Transferred in/(out)	<u>78,748</u>
Total assets held for sale as at March 31, 2023	<u>\$ 2,262,628</u>
<b>Liabilities associated with assets held for sale</b>	
Balance as at December 31, 2022	\$ 2,872,796
Transferred in/(out)	<u>(100,677)</u>
Total liabilities held for sale as at March 31, 2023	<u>\$ 2,772,119</u>

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 11. Assets and Liabilities Held for Sale (continued)

On March 13, 2023, the Company entered into a membership interest assignment and settlement agreement (the "Lafayette Membership Assignment"). Pursuant to the Lafayette Membership Assignment, the Company assigned its 90% interest in Lafayette Street Property Management LLC ("Lafayette") back to the existing partners and will make a \$120,000 payment for back rent owed on the property in exchange for satisfaction of an unsecured, non-interest bearing note payable in the amount of \$2,500,000 (the "Lafayette Note") (Note 13 and 23).

The assets and liabilities held for sale were comprised of the following as at March 31, 2023:

Accounts receivable, net	\$	10,847
Inventories		66,739
Prepaid expenses and other current assets		35,132
Property, plant and equipment, net		189,256
Right-of-use assets		1,387,759
Deposits and other assets		152,930
Due from other entities		<u>419,965</u>
Assets held for sale	\$	<u>2,262,628</u>
Accounts payable and accrued liabilities	\$	777,251
Excise, cultivation and property tax liabilities		5,131
Income taxes payable		172,774
Lease liabilities		<u>1,816,963</u>
Liabilities associated with assets held for sale	\$	<u>2,772,119</u>

### 12. 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 March 31, 2023 and December 31, 2022:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Accounts payable	\$ 21,717,952	\$ 20,369,595
Accrued local and sales taxes	6,865,556	5,673,819
Accrued liabilities	12,728,978	12,776,055
Accrued payroll	3,835,135	3,396,024
Accrued loyalty rewards program	<u>1,854,185</u>	<u>2,196,333</u>
Total accounts payable and accrued liabilities	<u>\$ 47,001,806</u>	<u>\$ 44,411,826</u>

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 13. Notes payable

The notes payable consists of the following as at March 31, 2023:

	<b>Total outstanding</b>
Carryover Notes	\$ 27,231,507
Senior Secured Debt	7,479,000
ACS Agreements	492,396
Seaside Note	340,000
Urbn Leaf - UL Visalia LLC	247,943
SBC Private loans	150,000
Vehicle financings	105,876
Total notes payable	<u>\$ 36,046,722</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. As at March 31, 2023, there were no unamortized deferred financing costs.

#### *Carryover Notes*

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

In connection with the Loudpack Acquisition, the Company assumed the Senior Carryover Notes and the 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") dated April 4, 2022 between Loudpack and Acquiom Agency Services, LLC as Collateral Agent and Administrative Agent. 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 owed under the Carryover Notes are due on April 4, 2025.

#### *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 originally matured on December 21, 2022, at which time all outstanding principal plus an additional fee of \$2,079,000 was due. Monthly payments were interest only with a variable interest rate of the higher of 12.5% or the prime rate plus 9%.

The Senior Secured Debt is secured by certain collateral, pursuant to the terms of a credit and guaranty agreement dated December 21, 2021, between Urbn Leaf and Seventh Avenue Investments, LLC.

On December 21, 2022, the Company entered into the first omnibus amendment of the loan agreement to extend the maturity date of the Senior Secured Debt to January 20, 2023. On January 20, 2023, the Company entered into the second omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to February 28, 2023. On February 28, 2023, the Company entered into the third omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to April 20, 2023. Additionally, the lenders assigned a portion of the Senior Secured Debt to Pelorus Fund REIT, LLC ("Pelorus") pursuant to the terms of a loan purchase agreement dated February 9, 2023. On April 20, 2023, the Company entered into the fourth omnibus amendment of the loan to further extend the maturity date of the Senior Secured Debt to May 22, 2023. On May 19, 2023, the Company entered into the fifth omnibus amendment of the loan to further extend the maturity date of the Senior Secured Debt to June 5, 2023 (Note 30).



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## 13. Notes payable (continued)

### *Senior Secured Debt (continued)*

The Company intends to refinance the Senior Secured Debt with Pelorus.

### *ACS Agreements*

On November 1, 2019 and February 27, 2022, Loudpack entered into certain secured promissory notes (collectively, the "ACS Agreements"). The November 1, 2019 note was in the amount of \$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 February 27, 2022 note was in the amount of \$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 ACS Agreements were assumed by the Company in connection with the Loudpack Acquisition, which closed on April 4, 2022. The ACS Agreements bear interest at a rate of 12.5%.

### *Seaside Note*

On May 18, 2022, the Company entered into an agreement with the Company's former partner (the "Seaside Agreement") to acquire a further 50% ownership interest in its Seaside, California retail dispensary (Note 23). The Seaside Agreement and the additional interest acquired by the Company 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.

### *Urbn Leaf - Lafayette Street*

The membership interests of Lafayette were acquired using the Lafayette Note. Pursuant to the terms of the Lafayette Note, Urbn Leaf paid \$500,000 in the form of a down payment, with the remaining \$2,000,000 to be paid in equal installments over a period of 24 months. On March 13, 2023, the Company entered into the Lafayette Membership Assignment. Pursuant to the Lafayette Membership Assignment, the Company assigned its 90% interest in Lafayette back to the existing partners and will make a \$120,000 payment for back rent owed on the property in exchange for satisfaction of the Lafayette Note (Note 11 and 23).

### *Urbn Leaf - UL Visalia LLC*

On July 30, 2019, Urbn Leaf acquired a 80% membership interest in UL Visalia LLC ("UL Visalia"), and Urbn Leaf satisfied the consideration payable for such acquisition with two initial payments of \$250,000 each, and the remaining \$500,000 being an unsecured and non-interest bearing loan to be paid by Urbn Leaf pursuant to the terms of a second amendment to the memorandum of understanding, which does not specify a definitive repayment date.

### *SBC Private loans*

In May 2017, SBC Management LLC ("SBC") borrowed \$100,000 from an individual at an interest rate of 12% per annum, pursuant to the terms of an unsecured loan (the "Second SBC Loan"). Pursuant to the terms of the Second SBC Loan, Urbn Leaf was required to make interest payments of \$1,000 per month until May 9, 2022, at which time the principal balance owed under the Second SBC Loan would become due. The Second SBC Loan was assumed by the Company in connection with the Urbn Leaf Acquisition, which closed 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.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 13. Notes payable (continued)

#### *SBC Private loans (continued)*

As of the date of the unaudited condensed interim consolidated financial statements, the Company has not repaid the principal owed under the Second SBC Loan and is working on obtaining an extension for the maturity date.

In August 2017, SBC borrowed \$50,000 from the same individual at an interest rate of 12% per annum, pursuant to the terms of an unsecured loan (the "Third SBC Loan"). Pursuant to the terms of the Third SBC Loan, Urbn Leaf was required to make interest payments of \$500 per month until August 16, 2022, at which time the full principal balance owed under the Third SBC Loan would become due. The Third SBC Loan was assumed by the Company in connection with the Urbn Leaf Acquisition, which closed 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. On May 15, 2023, the Company repaid the principal and accrued interest under the Third SBC Loan totaling \$50,000.

#### *Vehicle financings*

In connection with the Loudpack Acquisition, the Company assumed six vehicle financing notes (the "Vehicle Financing Notes") for its distribution operations. The Vehicle Financing Notes mature at various dates through October 2024, with interest rates of up to 6.34%.

### 14. Term Loan

On November 29, 2021, in connection with the intended acquisitions of Urbn Leaf and Loudpack, the Company announced that it signed a non-binding term sheet with Pelorus and on February 10, 2022, the Company and Pelorus entered into a loan and security agreement (the "Pelorus Loan Agreement") whereby Pelorus agreed to provide an aggregate of approximately \$77,300,000 of debt financing (the "Term Loan") which would be used primarily to retire certain existing loans, including the senior secured revolving credit facility (the "Facility"), and provide additional working capital to the Company, Urbn Leaf and Loudpack.

Pursuant to the terms of the Pelorus Loan Agreement, the Term Loan was funded in two tranches, with the first occurring prior to closing of the Urbn Leaf Acquisition and the Loudpack Acquisition, 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. 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 of the Term Loan 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 March 31, 2023, the Company was in compliance with these covenants.

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 consolidated financial statements over the five-year term.

As at March 31, 2023, the outstanding balance less unamortized deferred financing costs was \$75,739,490. As at March 31, 2023, unamortized deferred financing costs amounted to \$1,560,510.

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## 15. 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. As at March 31, 2023, the Company had \$24,562,326 accrued for the excise and cultivation tax liabilities, of which approximately \$16,900,000 related to penalties. The Company will apply with the CDTFA for relief of related penalties when the balance of principal and interest is paid in full.

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 such 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 time, the balance will bear interest at a rate of 3% per annum. As at March 31, 2023, the City of Greenfield Note amounted to \$1,388,864.

## 16. 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>Private Placement Offering Warrants Liability</b>
Balance as at December 31, 2022	\$ 977
Change in fair value of derivative liabilities	4,099
Effects of foreign exchange	(573)
Balance as at March 31, 2023	<u>\$ 4,503</u>

### *Private Placement Offering Warrants*

On February 18, 2021, the Company issued warrants to purchase SVS ("SVS Warrants") and warrants to purchase MVS ("MVS Warrants") (collectively, the "Private Placement Offering Warrants"), in connection with an upsized brokered private placement of units. The Private Placement Offering 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. As a result of the Reclassification, the SVS Warrants are now exercisable to acquire Common Shares using the corresponding amount of Common Shares.

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. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices from observable market data) from observable market data. 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 comparable public companies as there was insufficient trading history in the Company's shares.

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## 16. Derivative Liabilities (continued)

### *Private Placement Offering Warrants (continued)*

The following assumptions were used to value the Private Placement Offering Warrants as at March 31, 2023 and December 31, 2022:

	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Risk-free interest rate	4.28%	4.46%
Exercise price - CAD	C\$3.69	C\$3.69
Share price - CAD	C\$0.06	C\$0.10
Expected volatility	165.58%	114.16%
Expected remaining life	0.89 year	1.13 years
Fair value	\$4,503	\$977

## 17. 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 results 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 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 IRS 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 external 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 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, as described below, 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 March 31, 2023 and December 31, 2022, the reserve totaled \$21,324,638 and \$21,152,172, respectively, a sum which includes the IRS Agreement and the separate tax proceedings described below.

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## 17. 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 U.S. Tax Court decision that was issued on November 29, 2018. In that decision, the U.S. 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 U.S. 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 U.S. Tax Court determined that PMACC's total liability was \$11,013,237 plus accrued interest. In its ruling, the U.S. 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 U.S. Tax Court decision to the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit"), which heard oral arguments in the case on February 9, 2021 and affirmed the U.S. 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 pursuant to the IRS Agreement. In December 2022, the Company received a notice of default related to an underpayment of federal taxes for PMACC related to fiscal year 2021. As at March 31, 2023, the Company has accrued for all outstanding amounts and continues to make the installment payments under the IRS Agreement.

In a second U.S. 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 U.S. Tax Court on February 13, 2020. The IRS proposed a deficiency in tax of \$13,362,682. The U.S. Tax Court had stayed active litigation in this matter pending the Ninth Circuit's rendering a decision referenced above. With the adverse decision in the Ninth Circuit in April 2021, the stay is no longer in effect. External counsel for PMACC is in discussions with the IRS in respect to this matter.

### *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 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 U.S. 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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## 17. Provisions (continued)

Changes in the carrying amount of the provision for the three months ended March 31, 2023 was as follows:

Balance as at December 31, 2022	\$ 21,152,172
Interest accrued	272,466
Less payments made on IRS Agreement	<u>(100,000)</u>
Ending provision as at March 31, 2023	21,324,638
Less: current portion	<u>(16,524,638)</u>
Non-current provision	<u>\$ 4,800,000</u>

## 18. General and Administrative Expenses

For the three months ended March 31, 2023 and 2022, general and administrative expenses consisted of the following:

	<b>March 31, 2023</b>	<b>March 31, 2022</b>
Advertising and promotion	\$ 417,445	\$ 258,903
Banking and processing fees	1,194,249	533,633
Other general administrative	46,387	22,135
Office and general expenses	2,878,216	2,335,090
Salaries and benefits	6,230,610	3,395,605
Sales and marketing	75,770	541,257
Taxes and licenses	565,180	240,232
Travel and entertainment	<u>61,113</u>	<u>154,718</u>
Total	<u>\$ 11,468,970</u>	<u>\$ 7,481,573</u>

## 19. 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 months ended March 31, 2023 and 2022 was as follows:

	<b>March 31, 2023</b>	<b>March 31, 2022</b>
Current tax	\$ 3,419,714	\$ 1,302,444
Deferred tax	<u>426,424</u>	<u>35,916</u>
Income tax expense	<u>\$ 3,846,138</u>	<u>\$ 1,338,360</u>

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.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 19. Income Taxes (continued)

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.

Movement in the net deferred tax liabilities during the three months ended March 31, 2023 was as follows:

Balance, beginning of period	\$ 8,379,705
Recognized in loss	<u>426,424</u>
Balance, end of period	<u>\$ 8,806,129</u>

### 20. Share Capital

The following is a reconciliation of the issued and outstanding shares of the Company as at March 31, 2023 and December 31, 2022:

	<b>Common Shares (formerly SVS)</b>	<b>MVS</b>
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 stock options	291,407	-
Shares surrendered	(101,175)	-
Conversion of MVS to SVS	<u>43,726,030</u>	<u>(437,260.30)</u>
Balance, December 31, 2022	252,488,436	-
Shares surrendered	<u>(19,778)</u>	<u>-</u>
Balance, March 31, 2023	<u>252,468,658</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").

Each unit issued to non-residents 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 closing 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 in connection with the Offering.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 20. Share Capital (continued)

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, in connection with the Offering. As a result of the Mandatory Conversion, all MVS issued have been converted into SVS, and holders of MVS Warrants were then 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 16.

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 was exercisable until February 18, 2022 into one SVS Unit at an exercise price of C\$2.55 per SVS Unit. Upon exercise of a Broker Warrant, each underlying SVS Warrant was 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 based on the Monte Carlo Model. The key assumptions used are discussed in Note 22.

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.

### 21. 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, RSUs, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

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 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.



# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 21. Contributed Surplus (continued)

#### *Stock Options (continued)*

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, RSUs, 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 and restate 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 three months ended March 31, 2023 and the year ended December 31, 2022:

	<b>Number of options outstanding</b>	<b>Weighted average exercise price \$</b>
Balance, December 31, 2021	4,624,152	1.51
Options exercised	(291,407)	0.05
Options expired/forfeited/cancelled	(4,558,190)	1.02
Options granted	21,700,000	0.49
Replacement options recognized	<u>84,420</u>	3.43
Balance, December 31, 2022	21,558,975	0.61
Options expired/forfeited/cancelled	<u>(4,326,863)</u>	0.49
Balance, March 31, 2023	<u>17,232,112</u>	0.64

During the three months ended March 31, 2023 and 2022, the Company recorded aggregate share-based compensation of \$561,694 and \$1,222,369, respectively, for all stock options vesting during the period.

During the three months ended March 31, 2022, the Company received cash consideration of \$1,250 for the exercise of 25,000 vested options. There were no exercises of options during the three months ended March 31, 2023.

On February 4, 2022, the Company issued 84,420 replacement options (the "Sublime Replacement Options") to certain existing holders of Sublime options in connection with the Sublime Acquisition (as defined below). The Company accounted for the Sublime Replacement Options in accordance with IFRS 2 - *Share-based Payment* and IFRS 3 - *Business Combinations* and recognized post-acquisition costs for share-based compensation of \$916,112 related to the issuance of the Sublime Replacement Options.

On March 1, 2022, following closing of the Urbn Leaf Acquisition, the Company granted certain officers of the Company stock options (the "Urbn Leaf Options") to purchase an aggregate of 5,758,797 SVS to certain members of management and the Board. Each Urbn Leaf 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.

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 21. Contributed Surplus (continued)

#### *Stock Options (continued)*

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 3,400,000 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. As a result of the Reclassification, each stock option to acquire SVS is now exercisable to acquire Common Shares.

On October 10, 2022, the Company granted options to purchase up to an aggregate 800,000 Common Shares to certain members of management and employees. Each option is exercisable to acquire one Common Share at an exercise price of C\$0.25 per Common Share for a period of five years following the date of grant.

On November 24, 2022, the Company granted options to purchase up to an aggregate 800,000 Common Shares to certain members of management and employees. Each option is exercisable to acquire one Common Share at an exercise price of C\$0.16 per Common Share for a period of five years following the date of grant.

The fair value of stock options granted by the Company during the three months ended March 31, 2023 and 2022, under the A&R 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 three months ended	
	March 31, 2023	March 31, 2022
Stock price at grant date	CAD 0.16 - 2.21	CAD 0.70 - 2.98
Exercise price at grant date	CAD 0.16 - 2.21	CAD 0.70 - 5.42
Expected life in years	3 to 5 years	3 to 7.5 years
Expected volatility	100%	100%
Expected annual rate of dividends	0%	0%
Risk-free annual interest rate	0.32% - 3.92%	0.32% - 2.48%

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 21. Contributed Surplus (continued)

#### *Stock Options (continued)*

As at March 31, 2023, the options outstanding and exercisable for SVS and with the corresponding exercise price and weighted average remaining life was as follows:

Date of grant	Expiry date	Number of options outstanding	Number of options exercisable	Exercise price (USD)	Weighted average remaining life
September 1, 2020	September 1, 2025	573,611	551,389	\$ 0.702	2.42
December 23, 2020	December 23, 2025	765,000	25,000	\$ 1.352	2.73
June 11, 2021	June 11, 2026	414,060	103,516	\$ 1.633	3.20
August 1, 2016	August 1, 2026	32,631	32,631	\$ 0.050	3.34
March 1, 2022	March 1, 2027	5,758,797	1,439,699	\$ 0.517	3.92
April 4, 2022	April 4, 2027	6,001,203	1,085,301	\$ 0.554	4.01
April 29, 2022	April 29, 2027	740,000	-	\$ 0.554	4.08
June 29, 2022	June 29, 2027	800,000	-	\$ 0.273	4.25
October 10, 2022	October 10, 2027	800,000	-	\$ 0.159	4.53
November 24, 2022	November 24, 2027	800,000	-	\$ 0.118	4.65
April 25, 2018	April 25, 2028	440,000	440,000	\$ 4.150	5.07
May 15, 2018	May 15, 2028	43,000	43,000	\$ 4.150	5.13
June 25, 2018	June 25, 2028	10,000	10,000	\$ 4.150	5.24
February 4, 2022*	August 22, 2028	409	409	\$ 3.375	5.40
September 12, 2018	September 12, 2028	50,000	50,000	\$ 4.150	5.46
February 4, 2022*	December 31, 2028	1,886	1,886	\$ 3.375	5.76
February 4, 2022*	July 16, 2029	1,286	1,286	\$ 4.250	6.30
February 4, 2022*	July 16, 2029	229	229	\$ 3.375	6.30
Total		<u>17,232,112</u>	<u>3,784,346</u>		3.96

\*Sublime Replacement Options issued in connection with the acquisition of Sublimation Inc. (the "Sublime Acquisition").

The weighted average remaining contractual life of outstanding options as at March 31, 2023 was 3.96 years.

#### *Restricted share units ("RSUs")*

On March 1, 2022, the Company granted an aggregate of 912,599 RSUs to certain members of management. 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 to certain members of management. 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 May 26, 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.

On November 24, 2022, the Company granted an aggregate 400,000 RSUs to certain board members. The fair value on the grant date of the RSUs was valued at \$47,966 (or \$0.12 per RSU) based on the intrinsic value on the grant date.

On December 22, 2022, the Company granted an aggregate 150,000 RSUs to certain board members. The fair value on the grant date of the RSUs was valued at \$12,000 (or \$0.08 per RSU) based on the intrinsic value on the grant date.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 21. Contributed Surplus (continued)

*RSUs (continued)*

During the three months ended March 31, 2023 and 2022, the Company recorded share-based compensation expense of \$233,701 and \$21,366, respectively, as a result of vested RSUs.

As at March 31, 2023, the Company had an aggregate of 3,875,000 RSUs outstanding which includes grants prior to March 1, 2022.

### 22. Reserve for Warrants

The activity for warrants outstanding for the three months ended March 31, 2023 and the year ended December 31, 2022 is summarized as follows:

	<b>Common Shares (formerly Subordinate Voting Shares)</b>		
	<b>Number of warrants outstanding</b>	<b>Weighted average exercise price CAD \$</b>	<b>Weighted average exercise price USD \$</b>
Balance, December 31, 2021	6,375,854	3.59	2.54
Conversion of MVS Warrants to Common Shares in connection with the Reclassification	7,959,200	3.69	2.91
Conversion of Bank Warrants to Common Shares in connection with the Reclassification	410,000	3.69	2.91
Issuance of warrants	2,000,000	3.12	2.46
Broker Warrants expired	<u>(569,154)</u>	2.55	2.01
Balance, December 31, 2022	16,175,900	3.62	2.74
Bank Warrants expired	<u>(410,000)</u>	3.69	2.73
Balance, March 31, 2023	<u>15,765,900</u>	3.62	2.74
	<b>Multiple Voting Shares</b>		
	<b>Number of warrants outstanding</b>	<b>Weighted average exercise price CAD \$</b>	<b>Weighted average exercise price USD \$</b>
Balance, December 31, 2021	83,692	369.00	291.00
Conversion of MVS Warrants to SVS in connection with the Reclassification	(79,592)	369.00	269.00
Conversion of Bank Warrants to SVS in connection with the Reclassification	<u>(4,100)</u>	369.00	269.00
Balance, December 31, 2022	<u>-</u>	-	-

# STATEHOUSE HOLDINGS INC.

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## 22. Reserve for Warrants (continued)

### *Warrants*

On February 18, 2021, the Company issued 5,806,700 SVS and 79,592 MVS Warrants in connection with the Offering (Note 20). 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. Following the Mandatory Conversion, all MVS Warrants previously exercisable into MVS, were exercisable into SVS. In particular, each holder of MVS Warrants was then entitled to receive, upon exercise of the MVS Warrants, one hundred SVS per MVS Warrant at an exercise price of \$369 per MVS Warrant. As a result of the Mandatory Conversion and Reclassification the MVS Warrants are now exercisable to acquire Common Shares on economically equivalent terms using a ratio of one Common Share per SVS.

The SVS Warrants and MVS Warrants are being accounted for as a derivative liability (Note 16).

On March 19, 2021, the Company issued 4,100 warrants (the "Bank Warrants") to purchase MVS to the Bank in connection with the Facility, 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 were 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 Bank Warrants in connection with repayment of the Facility. The Bank Warrants were not exercised and expired during March 2023.

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

As a result of the Reclassification, the Loudpack Warrants are now exercisable to acquire Common Shares on economically equivalent terms.

The following table summarizes information of warrants outstanding as at March 31, 2023:

<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>
February 18, 2024	5,806,700	3.69	2.73	0.89
February 18, 2024	7,959,200	3.69	2.73	0.89
November 29, 2026	<u>2,000,000</u>	3.12	2.31	3.67
Total	<u>15,765,900</u>	3.62	2.67	1.24

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 23. Non-controlling interests

On February 15, 2022, the Company entered into the Subsequent FGW Agreement, pursuant to which the Company agreed to acquire the Subsequent Shares, subject to certain material closing conditions, including approvals from regulatory authorities. Upon closing of the transaction, 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 and Reclassification. As at March 31, 2023, 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.

On May 18, 2022, the Company entered into the Seaside Agreement pursuant to which the Company acquired the remaining 50% ownership interest in its Seaside, California retail dispensary (the "Seaside Acquisition"). The Seaside Acquisition was a result of a legal settlement (Note 13). 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 ownership interest in the Seaside retail dispensary to 100%.

On March 13, 2023, the Company entered into the Lafayette Membership Assignment. Pursuant to the Lafayette Membership Assignment, the Company assigned its 90% interest in Lafayette back to the existing partners and will make a \$120,000 payment for back rent owed on the property in exchange for satisfaction of the Lafayette Note (Note 11 and 13).

As at March 31, 2023, 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%

The change in non-controlling interests for the three months ended March 31, 2023 was as follows:

Balance, December 31, 2022	\$ 2,901,915
Share of loss for the period	(276,864)
Assignment of membership interest	<u>140,594</u>
Balance, March 31, 2023	<u>\$ 2,765,645</u>

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 24. 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.

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. On July 25, 2022, the Company completed the Reclassification whereby the Company reclassified its SVS to Common Shares (Note 20).

The following is a reconciliation for the calculation of basic and diluted loss per share for the three months ended March 31, 2023 and 2022:

	<u>March 31, 2023</u>	<u>March 31, 2022</u>
Net income (loss) attributable to the Company	\$ (10,603,411)	\$ (10,412,298)
Diluted weighted average number of shares outstanding	213,813,888	104,111,060
Basic and diluted loss per share	\$ (0.05)	\$ (0.10)

### 25. 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 months ended March 31, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Short-term employee benefits, including salaries and director fees	\$ 491,998	\$ 502,384
Share-based compensation - Directors and Executives	<u>858,672</u>	<u>255,269</u>
Total	<u>\$ 1,350,670</u>	<u>\$ 757,653</u>

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

As at March 31, 2023 and December 31, 2022, \$165,192 and \$164,567, respectively, was payable to the directors for quarterly director fees.

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

#### (b) Related Parties

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

# STATEHOUSE HOLDINGS INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements  
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## 25. Related Party Transactions and Key Management and Director Compensation (continued)

### (c) Other Related Parties

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

An immediate family member of Mr. Senn is employed by the Company. Short term employee benefits including salary expense during the three months ended March 31, 2023 and 2022 was \$26,643 and \$7,727, respectively. As at March 31, 2023 and December 31, 2022, a total of \$94,087 was payable for deferred compensation.

Lafayette leases a building in Stockton, California in which an officer of the Company owns a 45% interest in the entity that owns the building. On March 13, 2023, the Company entered into the Lafayette Membership Assignment. Pursuant to the Lafayette Membership Assignment, the Company assigned its 90% interest in Lafayette back to the existing partners and will be making a \$120,000 payment for back rent owed on the property in exchange for satisfaction of the Lafayette Note (Note 11 and 13). During the three months ended March 31, 2023 and 2022, the Company paid \$10,000 and \$12,000, 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 in the entity that owns the building. During the three months ended March 31, 2023 and 2022, the Company paid \$45,000 and \$10,000, respectively, for rent expense.

ULBP Inc. leases a building in La Mesa, California in which an officer of the Company owns a 50% interest in the entity that owns the building. During the three months ended March 31, 2023 and 2022, the Company paid \$nil and \$18,540, respectively, for rent expense.

## 26. 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 continues to operate, it may become party to additional litigation matters and claims. The outcomes of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect the Company's financial position, results of operations or cash flows.

### *IRC §280E*

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



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## 26. 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 U.S. Tax Court ruling. In an effort to resolve the matter as part of a global settlement, the Company withdrew its appeal.

On June 28, 2022, the Company entered into the IRS Agreement related to certain federal tax returns of PMACC (Note 17).

*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 ("Mr. 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 ("Ms. 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.) and sought class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Ms. Calhoun. On December 9, 2022, the Company agreed to a settlement to resolve the matter. Settlement payments began on February 1, 2023. 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.

*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 and two violations of the California Business & Professions Code by PMACC, FLRish and FLRish RMCo. On December 9, 2022, the Company agreed to a settlement to resolve the matter. Settlement payments began on February 1, 2023. 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.

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

On September 18, 2018, Sublime Machining, Inc. entered into a trademark assignment agreement with Sublime Concentrates, Inc. (the "Counterparty") for use of certain trademarks. The Counterparty filed suit against Sublime Machining, Inc. alleging breach of contract regarding the nonpayment for the transfer of the trademark assets. On February 23, 2023, the Company entered into the Fang Settlement Agreement, which calls for certain cash payments to be made to the Company in exchange for the release of any claims (Note 7).

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## 26. 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. Fang, a former employee and founder of Sublime Machining, Inc. The Company filed its counterclaim alleging breach of fiduciary duty and fraudulent misrepresentation. On February 23, 2023, the Company entered into the Fang Settlement Agreement, which calls for certain cash payments to be made to the Company in exchange for the release of any claims (Note 7).

*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 Machining, Inc. 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 the 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 the Company's 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. A settlement agreement with the plaintiff was executed on January 12, 2023. As at March 31, 2023, the Company had made full payment to the plaintiff under the settlement agreement.

*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 Urbn Leaf. These claims occurred prior to Urbn Leaf acquiring Uprooted Inc. 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.

*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. ("ULBP"), a subsidiary of Urbn Leaf and other parties. The complaint alleges a violation of PAGA by ULBP and the former employees are seeking 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.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 26. 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 of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

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

On or about September 9, 2022, the Company received a complaint that was filed August 26, 2022 related to a vehicle accident. The complaint alleges two claims: 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. The plaintiff, who is the worker's compensation insurance carrier for the contracted security company, is seeking compensatory damages in connection with this complaint. This matter has been referred to the Company's insurance carrier. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

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

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

*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 parties have executed a class action settlement agreement and have agreed to a maximum settlement amount. The settlement payments in connection with such settlement agreement must be paid over biweekly payments starting 30 days after final approval from the court is obtained, which is expected to be in late 2023. On June 29, 2022, the court granted preliminary approval of the settlement. Subsequent to quarter-end, the Company received final judgement in connection with this claim, pursuant to which the Company agreed to make settlement payments over time. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying 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 a 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.

# STATEHOUSE HOLDINGS INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the Three Months Ended March 31, 2023 and 2022 (Expressed in United States Dollars, except share amounts)

### 26. Commitments and Contingencies (continued)

#### *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.

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

In September 2020, Greenfield Prop Owner II, LLC received a complaint alleging personal injury damages arising from a car accident on May 24, 2019 involving a Company owned vehicle. Loudpack tendered a claim with its insurance provider and is being defended by panel counsel retained through such insurance provider. 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 had scheduled a Compliance Hearing regarding Dismissal for December 12, 2022. The compliance hearing was subsequently moved to March 9, 2023 and was continued by the court until May 16, 2023. Subsequent to quarter-end, the Company received a copy of the release of all claims and the request for dismissal of this matter.

#### *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 the Company's external counsel and insurance carrier. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

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

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

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## 26. Commitments and Contingencies (continued)

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

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

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

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

*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.

## 27. 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 13 and 14), 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 months ended March 31, 2023 and 2022.

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### 28. Financial Risk Management

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

#### (a) Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. The Company's liquidity and operating results may be adversely affected if the Company's access to capital markets is hindered, whether as the result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its operating and financing activities.

As at March 31, 2023 and December 31, 2022, the Company had a cash and restricted cash balance of \$2,639,681 and \$3,419,112, respectively, to settle current liabilities of \$135,286,841 and \$129,228,303, respectively. The higher amount of current liabilities as at March 31, 2023 is primarily due to debt (Note 13) and the Company's excise, cultivation and property tax liabilities (Note 15).

In addition to the commitments outlined in Note 10, *Right-of-use Assets and Lease Liabilities*, and Note 26, *Commitments and Contingencies*, the Company has the following contractual obligations as at March 31, 2023:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	> 5 Years	Total
Accounts payable and accrued liabilities	\$ 47,001,806	\$ -	\$ -	\$ -	\$ 47,001,806
Notes payable	8,273,173	27,078,755	100,000	40,000	35,491,928
Excise, cultivation and property tax liabilities	24,870,963	1,080,227	-	-	25,951,190
IRS Agreement	600,000	1,200,000	1,200,000	2,400,000	5,400,000
Term Loan	-	5,797,500	5,362,688	66,139,812	77,300,000
	<u>\$ 80,745,942</u>	<u>\$ 35,156,482</u>	<u>\$ 6,662,688</u>	<u>\$ 68,579,812</u>	<u>\$ 191,144,924</u>

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

#### (b) Credit Risk

Credit risk is the risk of potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash, accounts receivable, 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 13).

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## 28. Financial Risk Management (continued)

### (c) Market Risk (continued)

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

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

#### *(iii) Equity Price Risk*

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

### (d) Asset Forfeiture Risk

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

### (e) Banking Risk

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

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

## 29. Segmented Information

The Company's operations comprise one reportable segment comprised of multiple operating segments 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 months ended March 31, 2023 and 2022 and all property, plant and equipment and intangible assets are located in the United States.

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## 30. Subsequent Events

The Company has evaluated subsequent events through May 30, 2023.

### *Senior Secured Debt Extensions*

On April 20, 2023, the Company entered into the fourth omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to May 22, 2023. On May 19, 2023, the Company entered into the fifth omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to June 5, 2023.

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

Subsequent to quarter-end, the Company received approximately \$6,400,000 of ERC funds through the Coronavirus Aid, Relief and Economic Security Act. The ERC was established to provide eligible employers with a credit against certain employment taxes for qualified wages paid to employees who were retained during the COVID-19 pandemic. The ERC program requires the Company to comply with certain conditions, including maintaining certain levels of employment and not reducing wages of certain employees.

### *SBC Private Loan*

On May 15, 2023, the Company repaid the principal and accrued interest under the Third SBC Loan totaling \$50,000.