StateHouse Holdings Inc., Formerly Harborside Inc., Announces Agreement with IRS to Resolve and Reduce Legacy 280E Federal Tax Obligations Related to Harborside

– Agreement to result in positive non-cash accounting adjustment of approximately $15.8 million –

OAKLAND, Calif. and TORONTO, July 28, 2022 /CNW/ - StateHouse Holdings Inc. ("StateHouse" or the "Company") (CSE: STHZ) (OTCQX: STHZF), a California-focused, vertically integrated cannabis enterprise, is pleased to announce that it has reached a Partial Payment Installment Agreement (the "Agreement") with the Internal Revenue Service ("IRS") related to the federal tax returns of its wholly-owned subsidiary Patients Mutual Assistance Collective Corporation ("PMACC") for the 2007 to 2012 fiscal years and the 2020 fiscal year.

At issue were federal taxes owed of approximately $22.1 million. Under the Agreement, StateHouse is resolving this liability through the payment of approximately $5.8 million, 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.

The Company has maintained a provision on its balance sheet related to the taxes owed. This provision was approximately $21.6 million as at March 31, 2022 (the "Provision"). Given that the Provision is significantly higher than the anticipated repayments under the Agreement, the Company expects to record a positive non-cash accounting adjustment of approximately $15.8 million to reverse previous accruals in its financial results relating to the Provision. It is anticipated that the adjustment will be reflected in the Company's financial results for the second quarter ended June 30, 2022.

In addition, the Agreement allows the Company to recategorize the majority of the related liability as a non-current liability, materially reducing the short-term obligations on its balance sheet.

"This is a landmark agreement for our Company," said Ed Schmults, StateHouse Chief Executive Officer. "By resolving this longstanding 280E obligation, and more recent federal tax obligations, in a satisfactory manner, StateHouse has demonstrated its leadership in the U.S. cannabis sector. This result provides significant clarity for investors on an issue of critical importance, and puts StateHouse in a much stronger competitive position. It is an important step on our path to building a flagship California cannabis company."

"We are grateful to the IRS for working with us to resolve this issue," Mr. Schmults continued. "The federal tax burden on legal cannabis businesses is highly punitive and very difficult to navigate while trying to achieve profitability. The Agreement demonstrates that we can successfully manage the challenging taxation issues arising from the IRS 280E Tax Code, until there is reform at the federal level. We believe the case for this reform is very strong, as it would create tax fairness for legal cannabis businesses and significantly weaken the illicit market, which would result in stronger tax collections for the federal government over the long term."

The Agreement primarily relates to PMACC's allocation of certain expenses to cost of goods sold in certain of its corporate tax returns. PMACC, a wholly owned subsidiary of Harborside Inc. prior to Harborside's name change to StateHouse, was among the first cannabis companies to challenge the federal tax rule against such allocations and the historic litigation was closely followed by the industry in the hope that the U.S. Tax Court (the "Court") would find in favor of the Company and the resolution would pave the way for future tax relief for state licensed operators. On November 29, 2018, the Court disallowed these allocations, holding that they were instead deductions barred by the IRS 280E Tax Code.

About StateHouse

StateHouse, a vertically integrated enterprise with cannabis licenses covering retail, major brands, distribution, cultivation, nursery and manufacturing, is one of the oldest and most respected cannabis companies in California. The Company was awarded one of the first six medical cannabis licenses granted in the United States. Today, the Company operates 14 dispensaries covering Northern and Southern California and one in Oregon, distribution facilities in San Jose and Los Angeles, California and integrated cultivation/production facilities in Salinas and Greenfield, California. StateHouse is a publicly listed company, currently trading on the Canadian Securities Exchange ("CSE") under the ticker symbol "STHZ" and the OTCQX under the ticker symbol "STHZF". The Company continues to play an instrumental role in making cannabis safe and accessible to a broad and diverse community of California and Oregon consumers.

Cautionary Note Regarding Forward-Looking Information

This news release contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking statements") within the meaning of the applicable Canadian and United States securities legislation. To the extent any forward-looking information in this news release constitutes "financial outlooks" or "future-oriented financial information" within the meaning of applicable Canadian securities laws, the reader is cautioned not to place undue reliance on such information. All statements, other than statements of historical fact, are forward-looking statements and are based on expectations, estimates, and projections as at the date of this news release. Any statement that involves discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, future events or performance (often but not always using phrases such as "expects", or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "budget", "scheduled", "forecasts", "estimates", "believes" or "intends" or variations of such words and phrases or stating that certain actions, events or results "may" or "could", "would", "might" or "will" be taken to occur or be achieved) are not statements of historical fact and may be forward-looking statements. In this news release, forward-looking statements include, among other things, statements relating to the amount of taxes to ultimately be paid under the Agreement, the amounts and timing of the monthly payments to be made under the Agreement, the outcomes of any subsequent IRS review of payments to be made under the Agreement, the impact of the Agreement on the Company's financial position, the competitive position of the Company following this resolution, the impact that the decision of the IRS will have on the Company and the cannabis sector as a whole, and the Company's future business prospects.

These forward-looking statements are based on reasonable assumptions and estimates of management of the Company at the time such statements were made. Actual future results may differ materially as forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to materially differ from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors, among other things, include: implications of the COVID-19 pandemic on the Company's operations; fluctuations in general macroeconomic conditions; fluctuations in securities markets; expectations regarding the size of the cannabis markets where the Company operates; changing consumer habits; the ability of the Company to successfully achieve its business objectives; plans for expansion and acquisitions; political and social uncertainties; inability to obtain adequate insurance to cover risks and hazards; employee relations; the presence of laws and regulations that may impose restrictions on cultivation, production, distribution, and sale of cannabis and cannabis-related products in the markets where the Company operates; and the risk factors set out in the Company's management's discussion and analysis for the period ended March 31, 2022 and the Company's listing statement dated May 30, 2019, which are available under the Company's profile on www.sedar.com. Although the forward-looking statements contained in this news release are based upon what management of the Company believes, or believed at the time, to be reasonable assumptions, the Company cannot assure shareholders that actual results will be consistent with such forward-looking statements, as there may be other factors that cause results not to be as anticipated, estimated or intended. Readers should not place undue reliance on the forward-looking statements and information contained in this news release. The Company assumes no obligation to update the forward-looking statements of beliefs, opinions, projections, or other factors, should they change, except as required by law.

The Company, through several of its subsidiaries, is directly involved in the manufacture, possession, use, sale, and distribution of cannabis in the recreational and medicinal cannabis marketplace in the United States. Local state laws where the Company operates permit such activities however, investors should note that there are significant legal restrictions and regulations that govern the cannabis industry in the United States. Cannabis remains a Schedule I drug under the United States Controlled Substances Act, making it illegal under federal law in the United States to, among other things, cultivate, distribute or possess cannabis in the United States. Financial transactions involving proceeds generated by, or intended to promote, cannabis-related business activities in the United States may form the basis for prosecution under applicable United States federal money laundering legislation.

While the approach to enforcement of such laws by the federal government in the United States has trended toward non-enforcement against individuals and businesses that comply with recreational and medicinal cannabis programs in states where such programs are legal, strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. The enforcement of federal laws in the United States is a significant risk to the business of the Company and any proceedings brought against the Company thereunder may adversely affect the Company's operations and financial performance.

This news release does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States. The Company's securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States or to U.S. Persons unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available.

The CSE has neither approved nor disapproved the contents of this news release. Neither the CSE nor its Market Regulator (as that term is defined in the policies of the CSE) accepts responsibility for the adequacy or accuracy of this release.

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