STATEHOUSE HOLDINGS INC.
(formerly Harborside Inc.)

Management's Discussion and Analysis
For the Year Ended December 31, 2022
(Expressed in United States Dollars)

May 4, 2023

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of StateHouse Holdings Inc. (formerly Harborside Inc.) ("StateHouse" or the "Company") is for the year ended December 31, 2022 ("Fiscal 2022"). It is supplemental to, and should be read in conjunction with, the consolidated financial statements of StateHouse for the years ended December 31, 2022 and 2021 (the "2022 Financial Statements"). The 2022 Financial Statements and the financial information contained in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC"). In the opinion of management, all adjustments considered necessary for a fair presentation of the financial condition and results of operations of StateHouse have been included in this MD&A. In preparing this MD&A, management has taken into account information available up to May 4, 2023. Unless otherwise indicated, all figures presented in this MD&A are expressed in United States Dollars ("$" or "USD"). All references to "C$" or "CAD" pertain to Canadian Dollars. Unless the context otherwise requires, references in this MD&A to the "Company", "StateHouse", "we", "us" or "our" refers to StateHouse Holdings Inc. and its subsidiaries.

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

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian securities laws and United States securities laws ("forward-looking statements"). All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements are often identified by words such as "may", "would", "could", "should", "will", "intend", "plan", "seek", anticipate", "believe", "estimate", "expect" or similar words and expressions. Examples of forward-looking statements include, among others, statements relating to information set out in this MD&A under the headings "Outlook and Growth Strategy", "Projected Revenue Guidance", "COVID-19 Strategy", "Working Capital and Liquidity Outlook", and "Subsequent Events" and statements and information regarding: the effects of the novel coronavirus ("COVID-19") on the Company's operations and financial condition; the Company's future financial position and results of operations, strategies, plans, objectives, goals and targets; future developments in the markets in which the Company participates or is seeking to participate; the timing of and closing of an additional 29.9% interest in FGW (as defined herein) through conversion of the FGW Note (as defined herein); the timing of and closing of the acquisition of an additional 20% interest in FGW; the potential divestiture of non-core assets; the potential opening of additional dispensaries; potential future legalization of adult-use and/or medical cannabis under U.S. federal law; expectations of market size and growth in the U.S. and the states in which the Company operates; expectations regarding the Company's position in the California cannabis sector following the closing of the Urbn Leaf Acquisition (as defined herein) and the Loudpack Acquisition (as defined herein); expectations of improved efficiencies, financial flexibility, future product offerings and integration opportunities; comparisons of the Company to other cannabis issuers in California; the ability of the board of directors of the Company (the "Board") to oversee the Company's business strategy following completion of the Urbn Leaf Acquisition and the Loudpack Acquisition and safeguard the interests of all shareholders and preserve and enhance shareholder value; expectations regarding the evolution of the regulatory landscape for cannabis and cannabis derivative products; the competitive conditions of the cannabis industry and the competitive and business strategies of the Company following completion of the Urbn Leaf Acquisition and the Loudpack Acquisition; expectations that increased scale and vertical integration will drive margin expansion; expectations of yields, quality and performance from the Company's Genetic Trialing Program (as defined herein) and partnership with Refined Genetics (as defined herein); expectations of enhanced quality, efficiency and sustainability in the Company's cannabis cultivation from the partnership with CRC (as defined herein); the proposed assignment of the Company's 90% membership interest in Lafayette (as defined herein) and the cancellation of the Lafayette Note (as defined herein); and, expectations for other economic, business, regulatory and/or competitive factors related to the Company or the cannabis industry generally and other events or conditions that may occur in the future. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on management's current beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions of the Company. Although the Company believes that the expectations, estimates, and projections reflected in such forward-looking statements are reasonable, such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance, or achievements to differ materially from those suggested by the forward-looking statements. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. On this basis, readers are cautioned not to place undue reliance on such forward-looking statements.

Factors which could cause actual results to differ materially from those indicated in forward-looking statements include, but are not limited to: the expectations and assumptions on which the Company's strategies are based; the impact of COVID-19 on the Company's strategies and operations; the unfavorable tax treatment of cannabis businesses and the inability of the Company to benefit from certain tax deductions; litigation risks; the consolidation and expansion of the Company's retail footprint within California or in other geographic locations; the scale and improvement of the Company's cannabis cultivation, production and/or manufacturing capabilities; expansion of the Company's wholesale and business-to-business sales of its cannabis products; launching of new branded products; the Company's ability to position itself as one of California's premier vertically integrated cannabis companies; the Company's ability to manage the disruptions and volatility in the global capital markets; and the Company's ability to meet its working capital needs and financial covenants, including the cost and potential impact of complying with existing and proposed laws and regulations; as well as those other risks and uncertainties referenced in this MD&A under the heading "Risk Factors".

The discussion of risk factors in this MD&A has been updated to include discussion of risks related to COVID-19. The nature and scope of COVID-19 and its impact are constantly evolving, and it is difficult for management to identify all risks, or quantify those identified, or to assess their impact on particular financial measures and operating results at the current time. Nevertheless, the discussion under "Risk Factors" identifies areas of negative potential impact that may be caused by COVID-19.

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

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

Use of Non-IFRS Financial Measures

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

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

Adjusted EBITDA can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. Adjusted EBITDA is often used in valuation ratios and can be compared to enterprise value and revenue. The term Adjusted EBITDA does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

Adjusted Gross Profit and Adjusted Gross Margin exclude the changes in fair value less costs to sell ("FVLCS") of the Company's biological assets. Management believes these measures provide useful information as they represent the gross profit based on the Company's cost to produce inventories sold while removing fair value measurements which are tied to changing inventory components and levels, as required by IFRS.

There are no comparable IFRS financial measures presented in the 2022 Financial Statements. Reconciliations of the supplemental non-IFRS financial measures are presented in this MD&A. The Company provides the non-IFRS financial measures as supplemental information and in addition to the financial measures that are calculated and presented in accordance with IFRS. These supplemental non-IFRS financial measures are presented because management believes such measures provide information which is useful to shareholders and investors in understanding its performance and which may assist in the evaluation of the Company's business relative to that of its peers. However, such measures should not be considered superior to, as a substitute for or as an alternative to, and should only be considered in conjunction with, the most comparable IFRS financial measures.

Additional Information

Additional information relating to StateHouse can be found on the Company's SEDAR profile at www.sedar.com, or its website at https://www.statehouseholdings.com/.

Overview of the Company

StateHouse, through its affiliated entities, is a fully licensed, vertically integrated omni-channel cannabis company, with its business consisting of three primary revenue channels: (i) retail sales, including direct to consumer and delivery, (ii) cannabis processing, extraction and product manufacturing, including "white label" production of cannabis products for other cannabis companies, and (iii) wholesale sales, including the sale of cannabis flower and trim into the wholesale market. The Company operates in and/or has ownership interests in California and Oregon, in accordance with state and local laws and regulations, and is focused on building and maintaining its position as California's premier vertically integrated cannabis companies.

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

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

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

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

Retail Dispensaries

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

- Four owned and operated Harborside-branded retail dispensaries located in Oakland, San Jose, San Leandro and Desert Hot Springs, California;
- 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;
- A 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 "Haight Ashbury Dispensary"). FGW opened the Haight Ashbury 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 of California (from its Urbn Leaf-branded stores in each of these areas). The Company's direct to consumer offerings include an integrated ecommerce platform offering in-store pickup, curbside pick-up, express delivery and scheduled delivery, allowing the Company to extend its reach beyond physical retail locations and expand interactions with customers.

On January 9, 2023, the Company opened a dispensary under the Urbn Leaf brand in West Hollywood, California ("Urbn Leaf WeHo"). The Company operates Urbn Leaf WeHo pursuant to the terms of a management service agreement between UL Management LLC and PDLP JV, LLC dated December 30, 2022 (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 each for a total term of 20 years.

Cultivation, Wholesale and Distribution

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

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

Due to the acquisition of LPF JV Corporation ("Loudpack") in April 2022 (the "Loudpack Acquisition"), the Company owns and operates a cultivation and manufacturing facility in Greenfield, California (the "Greenfield Production Campus"). The Greenfield Production Campus includes approximately 30,000 sq. ft. of light deprivation greenhouse cultivation and approximately 55,000 sq. ft. of manufacturing and processing along with distribution, warehouse and office space. The Greenfield Production Campus is capable of manufacturing and processing all of the products the Company currently offers. Loudpack has permits to develop approximately 60,000 sq. ft. of additional cultivation, manufacturing, processing, distribution and dispensary space at the Greenfield Production Campus and owns undeveloped land within one mile of the Greenfield Production Campus where it is locally permitted to develop approximately 400,000 sq. ft. of cultivation, manufacturing, processing and distribution space.

The Greenfield Production Campus is one of the largest cannabis manufacturing facilities in California, from which the Company produces and distributes multiple cannabis brands, including: (i) Loudpack-branded cannabis, pre-roll products and concentrates, (ii) Smokiez-branded edibles, (iii) King Roll cannabis and pre-roll products, (iv) Dimebag-branded cannabis and pre-roll products, (v) King Pen-branded vape products and cannabis batteries, (vi) Urbn Leaf-branded cannabis, and (vii) Fuzzies-branded infused pre-rolls and cannabis flower products.

On October 3, 2022, the Company announced it entered into a strategic partnership (the "Partnership") with Nabis, California's largest cannabis distributor, pursuant to which the Company outsources all of its wholesale cannabis distribution.

As part of its integration efforts following the closing of the Loudpack Acquisition, the Company moved Sublime's manufacturing operations from its facility in Oakland, California (the "Oakland Facility") to the Greenfield Production Campus in May 2022. Thereafter, in June 2022, the Company sold the remaining property, plant and equipment from the Oakland Facility, along with the associated state and local cannabis manufacturing licenses required to operate a cannabis business at the Oakland Facility, for total cash consideration of $200,000. The Company recognized a loss upon sale of the business of approximately $7.2 million.

Corporate Organization

The 2022 Financial Statements have been prepared on a consolidated basis and incorporate the accounts of the Company and its subsidiaries, as follows:

Name	Jurisdiction	Purpose	Percentage Owned (%) December 31, 2022	Percentage Owned (%) December 31, 2021
StateHouse Holdings Inc. (formerly Harborside Inc.)	Ontario, Canada	Parent	100	100
658 East San Ysidro Blvd LLC	California, U.S.	Real Estate Holding Company	100	-
680 Broadway Master, LLC	California, U.S.	OperatingF Company	100	-
909 West Vista Way LLC	California, U.S.	Real Estate Holding Company	100	-
Accucanna Holdings Inc.	California, U.S.	Holding Company	100	100
Accucanna LLC	California, U.S.	Operating Company	100	100
Accucanna RE, LLC	California, U.S.	Operating Company	100	100
Auric Valley, Inc.	California, U.S.	Holding Company	100	-
Banana LLC	California, U.S.	Operating Company	75	-
Belling Distribution, Inc.	California, U.S.	Operating Company	100	-
Calgen Trading Inc.	California, U.S.	Operating Company	100	-
CDRS Investor LLC	California, U.S.	Holding Company	100	-
CDRS Owner LLC	Delaware, U.S.	Holding Company	100	-
Encinal Productions RE, LLC	California, U.S.	Operating Company	100	100
Evergreen LPFN, LLC	Delaware, U.S.	Holding Company	100	-
FFC1, LLC	California, U.S.	Holding Company	100	100
FGW Haight Inc.	California, U.S.	Operating Company	21	21
FLRish Farms Cultivation 2, LLC	California, U.S.	Operating Company	100	100
FLRish Farms Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish, Inc.	California, U.S.	Management Company	100	100
FLRish IP, LLC	California, U.S.	Holding Company	100	100
FLRish Retail, LLC	California, U.S.	Holding Company	100	100
FLRish Retail Management & Security Services, LLC	California, U.S.	Management Company	100	100
Gilded Creek Partners Inc.	California, U.S.	Holding Company	100	-
Greenfield Organix, Inc.	California, U.S.	Operating Company	100	-
Greenfield Prop Owner, LLC	Delaware, U.S.	Real Estate Holding Company	100	-
Greenfield Prop Owner II, LLC	Delaware, U.S.	Real Estate Holding Company	100	-
Haight Acquisition Corporation	Delaware, U.S.	Holding Company	100	100
JLM Investment Group, LLC	California, U.S.	Holding Company	67	-
Lafayette Street Property Management LLC	California, U.S.	Operating Company	90	-
LGC Holdings USA, Inc.	Nevada, U.S.	Holding Company	100	100
LGC LOR DIS 1, LLC	Oregon, U.S.	Operating Company	100	100
LGC LOR DIS 2, LLC	Oregon, U.S.	Operating Company	100	100

Name	Jurisdiction	Purpose	Percentage Owned (%) December 31, 2022	Percentage Owned (%) December 31, 2021
Lineage GCL California, LLC	California, U.S.	Holding Company	100	100
Lineage GCL Oregon Corporation	Oregon, U.S.	Holding Company	100	100
LPF 4th Street, LLC	Delaware, U.S.	Holding Company	100	-
LPF Bellflower, LLC	Delaware, U.S.	Holding Company	100	-
LPF Consulting Group, LLC	California, U.S.	Holding Company	100	-
LPF Michigan LLC	Delaware, U.S.	Holding Company	100	-
LPF Ohio, LLC	Delaware, U.S.	Holding Company	100	-
LPF RE Manager, LLC	California, U.S.	Management Company	100	-
LP-KP IP Holdings, LLC	California, U.S.	Holding Company	100	-
Lunar Management, LLC	New York, U.S.	Holding Company	100	-
Oakland Machining Supply SLB LLC	California, U.S.	Holding Company	100	100
Ocean Ranch LPFN, LLC	Delaware, U.S.	Holding Company	100	-
Patients Mutual Assistance Collective Corporation	California, U.S.	Operating Company	100	100
Redhunt Corporation	California, U.S.	Holding Company	100	-
San Jose Wellness Solutions Corp.	California, U.S.	Operating Company	100	100
San Leandro Wellness Solutions Inc.	California, U.S.	Operating Company	100	100
SaVaCa, LLC	California, U.S.	Holding Company	100	100
Savature Inc.	California, U.S.	Operating Company	100	100
SBC Management LLC	California, U.S.	Management Company	100	-
Sublime Machining Inc.	California, U.S.	Operating Company	-	100
Sublimation Inc.	Delaware, U.S.	Holding Company	100	100
ULBP Inc.	California, U.S.	Operating Company	100	-
ULRB LLC	California, U.S.	Operating Company	80	-
UL Benicia LLC	California, U.S.	Operating Company	70	-
UL Chula Two LLC	California, U.S.	Operating Company	51	-
UL Holdings Inc.	California, U.S.	Holding Company	100	-
UL Kenamar LLC	California, U.S.	Operating Company	100	-
UL La Mesa LLC	California, U.S.	Operating Company	60	-
UL Management LLC	California, U.S.	Management Company	100	-
UL San Jose LLC	California, U.S.	Operating Company	100	-
UL Visalia LLC	California, U.S.	Operating Company	80	-
Unite Capital Corp.	Ontario, Canada	Holding Company	100	100
Uprooted, Inc.	California, U.S.	Operating Company	100	-
Uprooted LM LLC	California, U.S.	Operating Company	100	-

Outlook and Growth Strategy[1]

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

Strategies

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

- Achieve cost savings and optimize efficiencies resulting from recent acquisitions, including improving margins on branded products produced by the Company;
- Expand the Company's branded product portfolio by creating or acquiring new branded products, leveraging its existing customer base and reputation to increase market share;
- Pursue white-label growth through partnerships with other companies, utilizing the Company's manufacturing expertise and facilities;
- Increase revenue from the Company's retail dispensaries by leveraging the cost-effective digital capabilities of the Company's new loyalty program to increase customer loyalty and enhance the customer experience;
- Capitalize on strong demand for excess flower and trim produced at the Company's cultivation facilities;
- Explore new licenses, partnerships or acquisitions to add additional shelf space;
- Assess the Company's capital structure and balance sheet requirements to determine the best approach to reduce liabilities and/or pay them over time to help improve the Company's financial position; and,
- Negotiate arrangements pertaining to liabilities to minimize their impact on the business including working with creditors to negotiate mutually beneficial solutions.

Through a review of StateHouse's existing retail dispensaries, management is exploring the divestiture of non-core assets in connection with the Company's continued efforts to improve its profitability and to focus on maximizing its presence and impact in the California market. The Company has been actively marketing certain rights and interests in its non-core assets, including cannabis licenses in noncore geographies within California and selected retail operations in Oregon and California. The Company anticipates that any potential divestures would occur in 2023, however, no definitive timeline is assured. There can be no assurance any transactions will be pursued by the Company due to its intention to divest any non-core assets. The Company has accounted for any potential divestures in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*. The Company does not intend to comment further with respect to potential divestitures unless and until it determines that additional disclosure is appropriate in accordance with the requirements of applicable securities laws.

Management considered whether to relocate the Company's dispensary in San Leandro, California (the "San Leandro Dispensary") in connection with its plan to obtain a long-term lease in a location that would provide better visibility to customers, while simultaneously lowering operating costs. However, the Company decided to stay in the current location and has subsequently agreed to a long-term lease for the San Leandro Dispensary, beginning on November 1, 2022.

[1] This section contains forward-looking statements and is based on a number of risks and assumptions, including those described under "Assumptions and Expectations". See "Cautionary Note Regarding Forward-Looking Statements".

Assumptions and Expectations

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

- Integration will create efficiencies for the Company, reduce costs and improve profits by improving business operations;
- Lean, efficient, scalable, profitable operations will position the Company for additional investment and increases in shareholder value;
- Ongoing cannabis legalization efforts across the U.S. will contribute to the industry's growth, and the state of California will continue to represent the single largest market in the United States;
- Expansion of the legalized adult-use markets in California and enforcement against the illicit market will continue;
- Legalized adult-use and medical cannabis consumption will continue to increase as branded products become increasingly popular and cannabis use becomes more widely acceptable;
- The cultivation and sale of cannabis flower and trim is likely to become increasingly commoditized;
- Trusted brands and diversified manufactured products offering value propositions to a range of consumer demographics will increase market share; and,
- California will provide an efficient base to service interstate commerce when legalized.

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

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

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

Strategic Acquisitions

The Company will continue to explore additional acquisitions that help the Company achieve its strategic initiatives and increase market share in the California cannabis market. The Company intends to make announcements on potential acquisitions if any material definitive agreements are reached with interested parties.

COVID-19

The novel strain of coronavirus commonly referred to as "COVID-19" was identified in December 2019. The outbreak of COVID-19 has severely impacted global economic activity and caused significant volatility and negative pressure in financial markets. Many countries including Canada and the United States, reacted by instituting quarantines, mandating business and school closures and restricting travel. While COVID-19 restrictions have loosened, COVID-19 has negatively impacted many industries directly or indirectly, including the regulated cannabis industry. The Company has taken responsible measures with respect to COVID-19 to maximize the safety of employees working at its facilities and continues to closely monitor the impacts of COVID-19, with a focus on the health and safety of both its employees and customers and business continuity. Given the uncertainties associated with COVID-19, including disruptions to the global and local economies, the Company is unable to estimate the future impact of COVID-19 on the business, financial conditions, results of operations, and/or cash flows.

Recent Developments

Term Loan

On February 10, 2022, the Company and Pelorus Fund REIT, LLC ("Pelorus") entered into a loan and security agreement (the "Pelorus Loan Agreement"), pursuant to which Pelorus agreed to provide an aggregate of approximately $77.3 million of debt financing (the "Term Loan"). Pursuant to the terms of the Pelorus Loan Agreement, the Term Loan was funded in two tranches. The first tranche of the Term Loan of $45.4 million was funded through three separate loans, with a loan to each UL Holdings, Inc. ("Urbn Leaf"), Loudpack and the Company. The Company received approximately $15.5 million, Loudpack received approximately $16.4 million, and Urbn Leaf received approximately $13.5 million of the aggregate amount funded under the first tranche. From its share of the proceeds of the Term Loan, the Company repaid the $12.0 million which was previously outstanding under its senior secured revolving credit facility (the "Facility"). The second tranche of the Term Loan of $31.9 million was disbursed to the Company on April 8, 2022, following the closing of the Company's acquisitions of Loudpack and Urbn Leaf. 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 secured by certain real estate assets, cannabis licenses and other assets of the Company, Urbn Leaf and Loudpack. The Term Loan is subject to debt service ratio requirements, interest reserves, certain cross-corporate guarantees, subordination agreements and intercreditor agreements, along with a general corporate guaranty from the Company.

Subsequent FGW Agreement

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 share purchase agreement with FGW (the "Subsequent FGW Agreement"), pursuant to which the Company agreed to acquire an additional 29.9% interest in FGW (the "Subsequent Shares"), subject to certain material closing conditions, including approvals from regulatory authorities and the conversion of the FGW Note in accordance with its terms. Upon closing of the transaction, the acquisition of the Subsequent Shares and the conversion of the FGW Note will increase the Company's interest in FGW to 80%. 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 terms of the Subsequent FGW Agreement, the Company will pay an aggregate purchase price of $1,300,650 for the Subsequent Shares. 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.

Urbn Leaf Acquisition

On March 1, 2022, pursuant to the terms of the 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 interests of Urbn Leaf (the "Urbn Leaf Acquisition") for a total purchase consideration comprised of (a) the issuance of 60,000,000 SVS, valued at approximately $26,284,000, (b) the settlement of the principal and accrued interest of an unsecured promissory note valued at approximately $1,100,000, and (c) a cash payment of approximately $444,000 for the settlement of receivables and payables from the pre-existing relationship between the companies. As a result of the Reclassification, all SVS issued in connection with the Urbn Leaf Acquisition have been reclassified as Common Shares in accordance with the terms of the Reclassification.

In connection with the Urbn Leaf Acquisition, the Company announced the resignation of Matthew Hawkins as interim Chief Executive Officer of the Company and the appointment of Edward Schmults ("Mr. Schmults") as Chief Executive Officer of the Company. Mr. Schmults also joined the Board, filling a vacancy created by the resignation of Alexander Norman. Will Senn ("Mr. Senn") was also appointed Chief Corporate Development Officer of the Company.

In connection with their appointments, the Company granted Mr. Schmults and Mr. Senn, in the aggregate: (i) stock options (the "Urbn Leaf Options") to purchase an aggregate of 5,758,797 SVS; and (ii) restricted share units (the "Urbn Leaf RSUs") representing the right to receive up to an aggregate of 912,599 SVS, subject to the satisfaction of certain vesting conditions. 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, in accordance with the terms of the Company's amended and restated equity incentive plan (the "A&R Plan"). As a result of the Reclassification, all Urbn Leaf Options and Urbn Leaf RSUs issued in connection with the Urbn Leaf Acquisition are now exercisable or represent the right to acquire, as applicable, Common Shares.

Altai Settlement Agreement

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 2019 binding letter of intent for the Company's acquisition of Lucrum Enterprises Inc. d/b/a LUX Cannabis Dispensary ("LUX"). 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.

Mandatory Conversion of MVS to SVS

On March 31, 2022, the Company completed the Mandatory Conversion. Pursuant to the Mandatory Conversion each holder of MVS received 100 SVS for each MVS held. On February 18, 2021, the Company issued warrants to purchase SVS (the "SVS Warrants") and warrants to purchase MVS (the "MVS Warrants"). As a result of the Mandatory Conversion and the Reclassification, the MVS Warrants are now exercisable to acquire Common Shares using the corresponding amount of Common Shares at 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.

Loudpack Acquisition

On April 4, 2022, pursuant to the terms of the definitive agreement dated November 29, 2021 between the Company, Loudpack, LPF Merger Sub, Inc. and LPF Holdco, LLC, the Company completed the Loudpack Acquisition for a total purchase consideration comprised of (a) the issuance of 90,752,140 SVS, valued at approximately $42,518,000, (b) the issuance of 2,000,000 warrants (the "Loudpack Warrants"), valued at approximately $610,000, (c) cash consideration of approximately $1,225,000, (d) the settlement of the 15% senior secured convertible debentures valued at approximately $3,173,000 and (e) approximately $439,000 for the settlement of receivables and payables from the pre-existing relationship between the companies. In addition, the Company paid approximately $3,764,000 of acquisition related costs on behalf of Loudpack. As a result of the Reclassification, all of the SVS issued in connection with the Loudpack Acquisition have been reclassified as Common Shares in accordance with the terms of the Reclassification.

The Loudpack Warrants were exercisable to purchase SVS at a price of $2.50 per SVS, anytime within five years of the closing date of the Loudpack Acquisition. The Company has the option to accelerate the expiration date of the Loudpack Warrants in the event that the volume weighted average trading price of the SVS is equal to or greater than $5.00. As a result of the Reclassification, all of the Loudpack Warrants issued in connection with the Loudpack Acquisition are now exercisable into Common Shares.

In connection with the Loudpack Acquisition, the Company announced the appointment of Marc Ravner ("Mr. Ravner") for a six-month transition period until October 4, 2022 as President of Integration of the Company. Mr. Ravner also joined the Board (see below).

Name Change to StateHouse Holdings Inc. and Share Consolidation

On April 4, 2022, the Company announced its intention to complete the Name Change and the Reclassification, as well as its intention to complete the consolidation (the "Consolidation") of all of its issued and outstanding SVS. Pursuant to the Consolidation, shareholders were expected to receive one post-Consolidation Common Share for every six pre-Consolidation SVS, subject to the Company continuing to meet the minimum listing requirements of the CSE. The Company subsequently postponed the Consolidation but completed the Name Change and Reclassification on July 25, 2022. The Company is continuing to evaluate the timing and merits of the Consolidation.

Changes to the Board of Directors and Appointment of New Officers

On April 4, 2022, Kevin Albert, Andrew Sturner ("Mr. Sturner") and Peter Kampian resigned from the Board to create vacancies for new members (the "Resignations"). On the same day, Mr. Ravner, Tiffany Liff ("Mrs. Liff") and Jonathon Roy Pottle were appointed to the Board, effective immediately, as approved by the shareholders of the Company on February 22, 2022. Mr. Sturner transitioned to the role of Board observer, with Roger Jenkins and Mr. Senn, retaining their existing roles as Board observers.

Concurrently, the Company also announced that Robert Bacchi was appointed Chief Technology Officer of the Company.

Grant of Incentive Options and RSUs to the Board and Management

On April 4, 2022, following the closing of the Loudpack Acquisition, the Company granted, in the aggregate: (i) options to purchase an aggregate of 9,401,203 SVS to certain members of the Board; and (ii) restricted share units ("RSUs") representing the right to receive up to an aggregate of 787,401 SVS, subject to the satisfaction of certain vesting conditions, to certain employees of the Company. In addition, the Company granted RSUs to members of its newly reconstituted Board representing the right to receive up to an aggregate of 1,950,000 SVS, subject to the satisfaction of certain vesting conditions.

Each stock 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. All stock options and RSUs were granted in accordance with, and are subject to the terms and conditions of, the A&R Plan.

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, and the RSUs representing the right to receive SVS now represent the right to receive Common Shares.

Shares for Debt

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 C$1,034,647 owed to certain advisors of the Company (the "Indebtedness") for certain advisory services provided to the Company in connection with the Urbn Leaf Acquisition and the Loudpack Acquisition.

Repayment of Bridge Financing

On July 31, 2021, Urbn Leaf completed a bridge financing whereby it issued a $5,200,000 secured promissory note (the "Urbn Leaf Note") to SUB CCP Urbn, LLC. On April 29, 2022, the Company repaid the Urbn Leaf Note as follows: (i) a cash payment in the amount of $358,541; and (ii) the issuance of approximately 16,660,993 SVS valued at $5,870,000, or C$0.45 per SVS.

New Retail Store Openings

On April 2, 2022, the Company's Urbn Leaf-branded dispensary (the "Grossmont Dispensary") in Grossmont, California, commenced operations and on April 28, 2022, the Haight Ashbury Dispensary commenced operations. As at December 31, 2022, the Company owns a 21% interest in the Haight Ashbury Dispensary.

SBC Private Loans

From December 2016 to April 2018, SBC Management LLC advanced certain loans to the Company. On May 11, 2022, the Company paid $250,665 to SBC, representing repayment of the principal and accrued interest owed pursuant to the loan advanced by SBC to the Company in December 2016. On May 18, 2022, the Company paid $77,010 to SBC, representing repayment of the principal and accrued interest owed pursuant to the loan advanced by SBC to the Company in April 2018.

On May 19, 2022, the Company entered into: (i) a third amendment to loan agreement in connection with the loan advanced by SBC to the Company in May 2017; and (ii) a third amendment to loan agreement in connection with the loan advanced by SBC to the Company in August 2018, each of which extended the maturity date and principal repayment under such loans to May 9, 2023.

Sale of Certain Assets of Sublime Machining, Inc. ("Sublime Machining")

As part of its integration efforts following the closing of the Loudpack Acquisition, the Company moved Sublime's manufacturing operations from its facility in Oakland, California (the "Oakland Facility") to the Greenfield Campus in May 2022. Thereafter, in June 2022, the Company sold the remaining property, plant and equipment from the Oakland Facility, along with the associated state and local cannabis manufacturing licenses required to operate a cannabis business at the Oakland Facility, for total cash consideration of $200,000. The Company recognized a loss upon sale of the foregoing assets of approximately $7.2 million.

Seaside Acquisition

On May 18, 2022, the Company entered into an agreement with the Company's former partner (the "Seaside Agreement") to acquire an additional 50% ownership interest for a total ownership interest of 100% in 680 Broadway Master, LLC, the owner of the Company's Seaside, California retail dispensary. 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 to sixth anniversaries of the First Installment, and $40,000 being paid on the seventh anniversary of the First Installment.

Integration of Sublime, Urbn Leaf and Loudpack

As announced on May 31, 2022, the Company began integration efforts, which are intended to maximize synergies from the Sublime Acquisition, the Urbn Leaf Acquisition and the Loudpack Acquisition. Synergies are ultimately expected to include increased gross profits realized as a result of the Company producing and distributing more cannabis products that are made from flower and trim which is grown at its facilities and sold at its retail stores and other Retailers throughout California; cost savings realized from reductions in staff and expenses; and, economies of scale gained through allocating a relatively stable and smaller amount of ongoing corporate overhead costs across a larger revenue base. Specific efforts completed or underway as of the date of this MD&A include:

- Relocating Urbn Leaf's manufacturing and distribution operations to the Greenfield Production Campus;
- Consolidating the management of cultivation operations at the Greenfield Production Campus with cultivation operations at the Salinas Production Campus, which include shifting cultivation activities from Greenfield to Salinas, using the Greenfield Production Campus for research and development of new cultivars, re-purposing greenhouses in Salinas to better support cultivation operations and implementing best practices to increase yield and output;
- Closure and sale of the Sublime production facility in Oakland and relocating Sublime's manufacturing and distribution operations to the Greenfield Production Campus;
- Increasing, on a year over year basis, the amount of flower and trim produced at the Salinas Production Facility;
- Implementing changes to corporate, manufacturing, wholesale sales and retail store operations to further reduce costs, including adopting efficient manufacturing processes and procedures;
- Developing new cannabis products which are expected to increase sales as they are introduced into the California market;

- Reviewing existing manufactured products and removing low margin and low volume products to better focus manufacturing and sales efforts on more profitable products;
- Reducing headcount through workforce reductions as the Company continues to consolidate operating functions;
- Implementing new financial software and new cultivation software, both of which are expected to streamline operations, provide more usable data and lower operating costs; and,
- Adopting uniform point of sale and inventory management software across the Company's retail operations, which is expected to provide more actionable customer data and improved retail inventory management.

Elimination of Cultivation Tax

On July 1, 2022, the state of California eliminated the cultivation tax on cannabis flower and trim produced and sold with the passing of AB195, Committee on Budget, Cannabis. This change is expected to save the Company $4 million to $5 million per year based on total expected flower production.

Name Change and Share Reclassification

On July 25, 2022, the Company completed its Name Change from "Harborside Inc." to "StateHouse Holdings Inc." and completed the Reclassification of all of its issued and outstanding SVS to Common Shares. 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 the shareholders held on June 23, 2022. Effective July 25, 2022, the Common Shares began to trade on the CSE under the new ticker symbol "STHZ" and on the OTCQX Best Market under the new ticker symbol "STHZF".

Internal Revenue Code ("IRC") §280E Partial Payment and Installment Agreement

Patients Mutual Assistance Collective Corporation ("PMACC") was involved in two separate tax proceedings, pursuant to which 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.

On July 28, 2022, the Company entered into a partial payment and installment agreement (the "IRS Agreement") with the Internal Revenue Service (the "IRS") in relation to a portion of the uncertain tax positions for PMACC covering the fiscal years ended July 31, 2007 through July 31, 2012 and the year ended December 31, 2020. Pursuant to the terms of the IRS Agreement, the Company is resolving the tax proceedings through the payment of approximately $5,800,000 to be made through $50,000 per month payments over an expected period of 116 months, which began 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.

Distribution Partnership with Nabis

On October 3, 2022, the Company announced it entered into a Partnership with Nabis. Pursuant to the terms of the Partnership, Nabis assumed the Company's wholesale distribution obligations. Nabis has a leading cannabis wholesale platform in California and is the state's single largest distributor of cannabis.

Management and Board Changes

Felicia Snyder was appointed to the Board on May 26, 2022.

Ahmer Iqbal resigned from his position as Chief Operating Officer of the Company effective September 30, 2022.

Effective December 31, 2022, Tom DiGiovanni, Chief Financial Officer, left the Company and Kavi Bhai, formerly Vice-President of Financial Planning and Analysis, was appointed to the role of Chief Financial Officer. In addition, Mrs. Liff resigned from the Board for personal reasons.

Results of Operations

Revenue

The Company has the following revenue channels:

• Retail operations: The Company's retail operations include both adult-use and medical cannabis sales. Direct to consumer sales include in-store retail, curbside pick-up and home delivery. As at December 31, 2022, the Company operated 13 retail dispensaries and four delivery hubs. Approximately 64.3% and 58.2% of the Company's revenue for the three months and year ended December 31, 2022, respectively, was derived from the Company's retail operations.

• Manufacturing operations: The Company's manufacturing operations include cannabis processing, extraction, and product manufacturing, for its own branded products and for "white label products" for other cannabis companies. Approximately 33.7% and 37.6% of the Company's revenue for the three months and year ended December 31, 2022, respectively, was derived from the Company's manufacturing operations.

• Wholesale operations: The Company's wholesale operations include cultivation and the sale of cannabis flower and trim to the wholesale market. Approximately 2.0% and 4.2% of the Company's revenue for the three months and year ended December 31, 2022, respectively, was derived from the Company's wholesale operations. With the completion of the Loudpack Acquisition, the Company has been using more cannabis flower and trim produced at the Salinas Production Campus for its own branded products and for white label manufactured products. The Company believes that a more fully integrated supply chain will result in higher product margins as the Company captures more of the price to consumer as well as lower input and production costs.

For the three months and years ended December 31, 2022, and 2021, revenue was comprised of the following:

	Three Months Ended December 31,		Years Ended December 31,	
$ in thousands	**2022**	**2021**	**2022**	**2021**
Retail revenue, net	$ 16,430	$ 8,514	$ 62,981	$ 38,695
Manufacturing revenue, net	8,610	5,174	40,669	11,065
Wholesale revenue, net	496	1,373	4,598	10,541
Total net revenue	$ 25,536	$ 15,061	$ 108,248	$ 60,301

The Company does not experience significant seasonality in its revenue or other important financial performance metrics.

Gross Profit

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

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

For the three months and years ended December 31, 2022 and 2021, gross profit and gross margin by revenue channel was as follows:

	Three Months Ended December 31,		Years Ended December 31,	
$ in thousands	2022	2021	2022	2021
Retail operations				
Retail revenue, net	$ 16,430	$ 8,514	$ 62,981	$ 38,695
Cost of goods sold	8,231	3,602	28,169	16,668
Gross profit before biological asset adjustments	$ 8,199	$ 4,912	$ 34,812	$ 22,027
Gross margin	*49.9%*	*57.7%*	*55.3%*	*56.9%*
Manufacturing operations				
Manufacturing revenue, net	$ 8,610	$ 5,174	$ 40,669	$ 11,065
Cost of goods sold	4,776	3,402	27,226	7,195
Gross profit before biological asset adjustments	$ 3,834	$ 1,772	$ 13,443	$ 3,870
Gross margin	*44.5%*	*34.2%*	*33.1%*	*35.0%*
Wholesale operations				
Wholesale revenue, net	$ 496	$ 1,373	$ 4,598	$ 10,541
Cost of goods sold	1,705	3,222	10,718	10,346
Gross profit before biological asset adjustments	$ (1,209)	$ (1,849)	$ (6,120)	$ 195
Gross margin	*-243.8%*	*-134.7%*	*-133.1%*	*1.8%*

Operating Expenses

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

For the three months and the years ended December 31, 2022, and 2021, operating expenses were comprised of the following:

	Three Months Ended December		Years Ended December 31,	
$ in thousands	2022	2021	2022	2021
General and administrative	$ 10,659	$ 7,270	$ 48,085	$ 23,464
Professional fees	3,135	288	9,241	6,936
M&A and transaction expenses	-	2,377	8,698	5,608
Share-based compensation	901	277	4,842	788
Allowance for expected credit losses	1,622	148	2,829	489
Write-downs (recovery) of receivables and investments and advances	-	-	-	(116)
Depreciation and amortization	3,419	1,041	10,020	2,164
Total operating expenses	$ 19,736	$ 11,401	$ 83,715	$ 39,333

General and Administrative Expenses ("G&A")

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

As a percentage of sales, management expects G&A costs to decrease as integration and optimization efforts continue. Management expects to achieve further synergies, increase operational efficiencies and improve gross margins as it more fully integrates recent acquisitions.

For the three months and the years ended December 31, 2022 and 2021, G&A was comprised of the following:

	Three Months Ended December 31,				Years Ended December 31,			
$ in thousands	2022	% of net revenue	2021	% of net revenue	2022	% of net revenue	2021	% of net revenue
Advertising and promotion	$ 571	2%	$ 456	3%	$ 1,492	1%	$ 1,619	3%
Banking and processing fees	1,259	5%	298	2%	2,504	2%	1,128	2%
Other general administrative	48	0%	31	0%	162	0%	112	0%
Office and general expenses	1,077	4%	1,679	11%	13,181	12%	5,555	9%
Salaries and benefits	6,701	26%	2,287	15%	25,366	23%	11,320	19%
Sales and marketing	61	0%	609	4%	1,142	1%	1,203	2%
Taxes and licenses	834	3%	1,799	12%	3,532	3%	2,176	4%
Travel and entertainment	108	0%	111	1%	706	1%	351	1%
Total general and administrative expenses	$ 10,659		$ 7,270		$ 48,085		$ 23,464	

Non-cash Impairment

The Company is required to assess its goodwill and long-lived assets, including property, plant and equipment and intangible assets for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount.

As part of its annual impairment assessment, the Company's forecasts consider changes in cash flow estimates due to lower cannabis industry growth assumptions and cost pressures due to higher U.S. inflation and increased supply. While the Company remains optimistic that cannabis legalization will occur, expected future cash flows reflect the current tax and regulatory environment. The issues faced by the Company are not unique to the Company as the entire California cannabis industry has been significantly impacted. Impairment charges are an adjustment that do not affect the Company's cash position or cash flow from operating activities. There is no guarantee that further impairment charges will, or will not, occur in the future. The Company continues to focus on activities to create long-term shareholder value and restructure its business to reduce its operating costs.

Other income (expense)

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

For the three months and the years ended December 31, 2022 and 2021, other income (expense) consisted of the following:

	Three Months Ended December		Years Ended December 31,	
$ in thousands	2022	2021	2022	2021
Interest income (expense), net	$ (4,774)	$ (684)	$ (15,935)	$ (3,225)
Other income (expense), net	(762)	(145)	(3,265)	152
Provisions	-	-	16,101	5,296
Loss on sale of business	(11)	-	(7,168)	-
Fair value gain in other current assets and derivative liabilities	(7)	1,082	1,711	11,583
Gain (loss) on debt extinguishment	-	-	(66)	128
Foreign exchange gain (loss)	(434)	(16)	(1,461)	145
Total other income (expense), net	$ (5,988)	$ 237	$ (10,083)	$ 14,079

Income Taxes

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

Selected Financial Information

Selected Quarterly Financial Results

The following table, which presents the Company's quarterly results of operations, should be read in conjunction with the 2022 Financial Statements and related notes thereto. Operating results for any quarter are not necessarily indicative of results for any future quarters, or for a full year. Selected financial information for the eight most recently completed quarters as at December 31, 2022 are as follows:

	2022				**2021**			
$ in thousands, except share amounts	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
	$	$	$	$	$	$	$	$
Net revenue	25,536	30,847	34,598	17,267	15,061	17,446	15,354	12,441
Cost of goods sold	14,712	19,782	19,861	11,758	10,226	9,014	8,354	6,614
Gross profit before FVLCS	10,824	11,065	14,737	5,509	4,835	8,432	7,000	5,827
Gross profit	10,488	9,468	16,121	6,476	2,261	6,783	8,709	4,589
Impairment loss	196,656	-	-	-	25,233	-	-	-
Expenses	19,736	21,037	28,904	14,038	11,401	11,114	9,020	7,799
Operating income (loss)	(205,903)	(11,569)	(12,783)	(7,562)	(34,374)	(4,331)	(309)	(3,211)
Other income (expense)	(5,988)	(6,069)	3,635	(1,661)	237	8,830	3,637	1,375
Income tax benefit (expense)	15,458	(2,823)	(4,352)	(1,338)	6,332	(1,821)	(1,658)	(1,075)
Non-controlling interests	(13)	(332)	(75)	(149)	(66)	(56)	(88)	-
Net income (loss) attributable to StateHouse Holdings Inc.	(196,420)	(20,129)	(13,425)	(10,412)	(27,739)	2,734	1,758	(2,911)
Net income (loss) per share - basic	(0.89)	(0.08)	(0.05)	(0.10)	(0.38)	0.03	0.03	(0.06)
Net income (loss) per share - diluted	(0.89)	(0.08)	(0.05)	(0.10)	(0.38)	0.03	0.03	(0.06)

Financial Information for the Three Months Ended December 31, 2022 and 2021

The following tables set forth selected consolidated financial information for the periods indicated that are derived from, and should be read in conjunction with, the 2022 Financial Statements and related notes included thereto.

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

	Three Months Ended December 31,	
$ in thousands	2022	2021
Net revenue	$ 25,536	$ 15,061
Cost of goods sold	14,712	10,226
Gross profit before biological asset adjustments	10,824	4,835
Gross margin	42.4%	32.1%
FVLCS of biological asset transformation	(2,662)	(4,489)
Realized fair value amounts included in inventory	2,326	1,915
Gross profit	10,488	2,261
Gross margin	41.1%	15.0%
Total expenses	19,736	11,401
Impairment loss	196,656	25,233
Total other income (expense), net	(5,988)	237
Income tax benefit (expense)	15,458	6,333
Non-controlling interests	(13)	(64)
Net income (loss) attributable to StateHouse Holdings Inc.	$ (196,420)	$ (27,739)

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

Revenue

During the three months ended December 31, 2022, the Company generated total net revenue of $25.5 million compared to $15.1 million for the three months ended December 31, 2021. Retail, manufacturing and wholesale revenue for the three months ended December 31, 2022, totaled $16.4 million, $8.6 million, and $0.5 million, respectively, compared to retail, manufacturing and wholesale revenue for the three months December 31, 2021, of $8.5 million, $5.2 million, and $1.4 million, respectively.

The increase in retail revenue of $7.9 million, representing growth of approximately 93.0%, was primarily attributable to the Urbn Leaf-branded retail dispensaries acquired in connection with the Urbn Leaf Acquisition on March 1, 2022, along with the opening of the Haight Ashbury Dispensary and the Grossmont Dispensary in April 2022. Accordingly, the results are not necessarily comparable on a year over year basis.

The increase in manufacturing revenue of $3.4 million, representing growth of approximately 65.4%, was primarily attributable to the Loudpack Acquisition in April 2022. Accordingly, results of operations are not necessarily comparable on a year over year basis. The Company's manufacturing operations produce multiple cannabis products which are distributed to over 570 dispensaries across the state of California, including the Company's own retail locations.

The Company's wholesale revenues decreased $0.9 million for the three months ended December 31, 2022, compared to the three months ended December 31, 2021. The Company utilized a greater percentage of flower produced at the Salinas and Greenfield Campuses for the Company's branded products rather than selling bulk flower directly into the wholesale market. During the three months ended December 31, 2022, the California market continued to experience compression in the price of flower as the market for unbranded flower continued to commoditize. For the three months ended December 31, 2022, approximately 50.9% of the flower and trim produced at the Company's Salinas Campus was used for the Company's products, compared to approximately 20.2% for the three months ended December 31, 2021. The Company expects to improve gross profits by continuing to use more self-produced flower and trim in its branded products.

COGS and Gross Profit

During the three months ended December 31, 2022, COGS for the retail, manufacturing and wholesale operations totaled \$8.2 million, \$4.8 million and \$1.7 million, respectively, compared to COGS for the retail, manufacturing and wholesale operations of \$3.6 million, \$3.4 million and \$3.2 million, respectively, for the three months ended December 31, 2021. Consolidated gross profit before biological asset adjustments for the three months ended December 31, 2022, and 2021, were \$10.8 million and \$4.8 million, respectively, for a gross margin of 42.4% and 32.1%, respectively. Quarter over quarter combined gross margins increased primarily due to the manufacturing operations. The Company has been prioritizing efficiency improvements in its manufacturing operations to reduce costs and enhance overall product quality. The Company's internal use of flower and trim produced at the Salinas Production Campus increased approximately 151.7% from the three months ended December 31, 2021 to the three months ended December 31, 2022. The increase in internally grown flower and trim has led to a decrease in the costs of flower and trim used in manufacturing operations. By embracing vertical integration and controlling its supply chain, the Company has been able to increase its margins related to the manufacturing operations.

Total Operating Expenses

During the three months ended December 31, 2022, and 2021, the Company incurred total operating expenses of \$19.7 million and \$11.4 million, respectively. The results of operations for the three months ended December 31, 2022 include the operations of Urbn Leaf (acquired March 1, 2022) and Loudpack (acquired April 4, 2022), as such, the results of operations are not necessarily comparable between these periods. The increase in total operating expenses was primarily related to the following items:

• An increase in general and administrative expenses of \$3.3 million, to \$10.6 million in the three months ended December 31, 2022 compared to \$7.3 million in the three months ended December 31, 2021. The increase in general and administrative expenses was primarily attributable to the following items:

(i) A \$4.4 million increase in salaries and benefits from the additional headcount assumed in connection with the Urbn Leaf Acquisition and the Loudpack Acquisition, net of restructuring fees. The Company's headcount as at December 31, 2022 was approximately 450 employees compared to approximately 230 employees as at December 31, 2021.

(ii) A \$1.0 million increase in banking and processing fees due to the increase in retail locations in connection with the Urbn Leaf Acquisition as well as a general increase in the number of banking relationships.

(iii) A \$1.0 million decrease in taxes and licenses. During the three months ended December 31, 2021, the Company incurred additional expenses for taxes and licenses related to penalties and fees on the Company's Q3 2021 state excise tax returns and past property taxes. Expenses did not recur in the three months ended December 31, 2022.

(iv) A \$0.5 million decrease in office and general expenses related primarily to cost saving initiatives by the Company during the three months ended December 31, 2022. Cost savings initiatives included reduction of spending across all business lines, elimination of redundant services and subscriptions and re-negotiating contracts with vendors.

• An increase in depreciation and amortization of \$2.4 million, to \$3.4 million in the three months ended December 31, 2022 compared to \$1.0 million in the three months ended December 31, 2021. The increase was primarily due to the additional property, plant and equipment acquired in connection with the Urbn Leaf Acquisition and the Loudpack Acquisition, as well as the opening of the Haight Ashbury Dispensary and the Grossmont Dispensary in April 2022.

• An increase in allowance for expected credit losses of \$1.5 million, to \$1.6 million for the three months ended December 31, 2022 compared to \$0.1 million for the three months ended December 31, 2021. The increase is a result of the additional accounts receivables assumed in connection with the Loudpack Acquisition and the Company's quarterly assessment of the risk of collectability of accounts receivable. Estimates of expected credit loss 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.

- An increase in share-based compensation of $0.6 million, to $0.9 million for the three months ended December 31, 2022 compared to $0.3 million for the three months ended December 31, 2021. The increase resulted from expense recognized on a higher amount of unvested grants outstanding from grants of stock options and RSUs for certain members of management, employees, the Board and consultants.

- An increase in professional fees of $2.8 million, to $3.1 million in the three months ended December 31, 2022, compared to $0.3 million for the three months ended December 31, 2021, due to increases in legal expenses and accounting and consulting expenses.

- These increases were partially offset by a decrease of $2.4 million in M&A transaction expenses for the three months ended December 31, 2022, compared to $2.4 million for the three months ended December 31, 2021 to $nil, due to no M&A activity in the three months ended December 31, 2022.

Operating Income (Loss)

As the Company continues to scale and integrate its business, it is incurring operating losses. The Company's loss from operations for the three months ended December 31, 2022 totaled $205.9 million. The Company is focused on optimizing its operations, leveraging the assets it acquired and realizing synergies from expanding the size of its overall business and further vertically integrating its operations. In addition, the Company continues to identify and launch additional integration and growth efforts which are expected to improve profitability.

Total Other Income (Expense)

For the three months ended December 31, 2022, other expense was $6.0 million, comprised primarily of interest expense of $4.8 million and other income of $0.8 million.

Provision for Income Taxes

During the three months ended December 31, 2022, the Company recorded a benefit for income taxes of $15.5 million compared to a benefit for income taxes of $6.3 million for the three months ended December 31, 2021. The increase was a result of the Company's higher gross profits and reflect the expected burden of the permanent tax differences imposed on the Company by IRC §280E.

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

Overall, the net loss for the three months ended December 31, 2022, was $196.4 million (net loss of $(0.89) per share), compared to a net loss of $27.7 million (net loss of $(0.38) per share), for the three months ended December 31, 2021.

Selected Annual Information

The following table presents the Company's results of operations as at and for the three most recently completed financial years ended December 31 and should be read in conjunction with the 2022 Financial Statements and related notes thereto. The Company's selected financial information as at and for the three most recently completed financial years ended December 31, are summarized as follows:

	Years Ended December 31,		
$ in thousands	**2022**	**2021**	**2020**
Net revenue	$ 108,248	$ 60,301	$ 59,954
Cost of goods sold	66,113	34,209	31,911
Gross profit before biological asset adjustments	42,135	26,092	28,043
Gross margin	38.9%	43.3%	46.8%
FVLCS of biological asset transformation	(7,753)	(3,845)	4,175
Realized fair value amounts included in inventory	8,171	95	(2,623)
Gross profit	42,553	22,342	29,595
Gross margin	39.3%	37.1%	49.4%
Total expenses	83,715	39,333	30,094
Impairment loss	196,656	25,233	3,200
Total other income (expense), net	(10,083)	14,079	(2,132)
Income tax benefit (expense)	6,945	1,778	(6,115)
Non-controlling interests	(569)	(209)	-
Net income (loss) attributable to StateHouse Holdings Inc.	$ (240,386)	$ (26,158)	$ (11,946)

The results of operations for the year ended December 31, 2022 include operations of Urbn Leaf (acquired March 1, 2022) and Loudpack (acquired April 4, 2022), as such, the results of operations are not necessarily comparable between periods.

Revenue

During the year ended December 31, 2022, the Company generated total net revenue of $108.2 million compared to $60.3 million for the year ended December 31, 2021. Retail, manufacturing and wholesale revenue for the year ended December 31, 2022, totaled $62.9 million, $40.7 million, and $4.6 million, respectively, compared to retail, manufacturing and wholesale revenue for the year ended December 31, 2021, of $38.7 million, $11.1 million, and $10.5 million, respectively.

The improvement in retail revenue of $24.2 million was primarily attributable to the Urbn Leaf-branded retail dispensaries acquired in connection with the Urbn Leaf Acquisition on March 1, 2022, along with the opening of the Haight Ashbury Dispensary and the Grossmont Dispensary in April 2022. Accordingly, the results are not necessarily comparable on a year over year basis. The Company is focused on adjusting its product mix across all retail locations to increase sales of the Company's branded products, which is expected to generate higher gross margins compared to third party product offerings. The Company continues to experience a decrease in retail store foot traffic consistent with the overall California market as the state continues to experience softening of demand as the pandemic subsides, new retail stores open from additional licenses being granted, spending patterns shift, the continued and improving strength of the illicit market and the ongoing lack of enforcement from authorities against illegal grows and dispensaries. In addition, foot traffic has decreased as discretionary consumer spending is under pressure due to inflation.

The improvement in manufacturing revenue of $29.6 million was primarily attributable to expansion of manufacturing operations in connection with the Loudpack Acquisition. Accordingly, the results of operations are not necessarily comparable on a year over year basis. In May 2022, the Company moved the existing manufacturing operations acquired in connection with the Sublime Acquisition in July 2021 to the Greenfield Production Campus. The Company's manufacturing operations produce multiple cannabis products which are distributed to over 570 dispensaries across the state of California, including the Company's owned retail locations.

The Company's wholesale revenues decreased $5.9 million for the year ended December 31, 2022, compared to the year ended December 31, 2021. The Company's strategy has shifted, using a greater percentage of flower and trim produced at the Salinas and Greenfield Campuses for the Company's branded products. The California market continues to experience compression in the price of flower as the market for unbranded flower continues to commoditize. For the year ended December 31, 2022, approximately 58.1% of the flower produced at the Company's Salinas Campus was used internally for the Company's branded products, compared to approximately 20.5% for the year ended December 31, 2021. The Company expects to realize improved gross profits by continuing to use more self-produced flower and trim in its manufacturing operations.

COGS and Gross Profit

During the year ended December 31, 2022, COGS for the retail, manufacturing and wholesale operations totaled $28.2 million, $27.2 million and $10.7 million, respectively, compared to COGS for the retail, manufacturing and wholesale operations of $16.7 million, $7.2 million and $10.3 million, respectively, for the year ended December 31, 2021. Consolidated gross profit before biological asset adjustments for the year ended December 31, 2022 and 2021 were $42.1 million and $26.1 million, respectively, for a gross margin of 38.9% and 43.3%, respectively. Year over year combined gross margins decreased primarily due to wholesale operations as a result of lower prices for flower and trim and an increase in expenses for cultivation labor and utilities compared to the same period in the prior year. Cultivation labor and utility expense increases were a result of:

(i) A perpetual harvest cycle that was implemented during the third quarter of 2021, which has resulted in improved yields. Yields at the Salinas Production Campus during the year ended December 31, 2021 were approximately 19,700 lbs compared to 39,600 lbs during the year ended December 31, 2022.

(ii) Significant rate increases in electric and gas utilities combined with higher usage for heating and supplemental lighting in the greenhouses. Electrical and gas expenses averaged approximately $0.2 million per month during the year ended December 31, 2021 compared to an average of approximately $0.3 million per month during the year ended December 31, 2022. The Company's utility rates continue to increase for kilowatts per hour and therms resulting in higher expenses for electricity and heating. In January 2022, utility rates increased by approximately 8.0% and in March 2022, rates increased an additional 10.0%. The overall cost for utilities increased by 62.1% year over year, of which approximately 32.7% related to an increase in costs associated with higher usage as a result of the perpetual schedule. The Company expects to partially offset the impact of recent utility rate increases through the installation of solar panels and microgrid equipment in fiscal 2023 (see below).

The Company plans to install an onsite renewable energy microgrid that is expected to include 3.4 megawatts of single axis tracker solar panels and 4.5 megawatts per hour of battery storage, tied to advanced system and load management controls at the Company's Salinas Production Campus. The renewable energy microgrid is expected to begin producing power in the fourth quarter of 2023 and will help mitigate the increasing cost of grid supplied energy as well as help to avoid the additional state regulations which would otherwise require the Company to purchase carbon offset credits beginning January 1, 2023.

During the year ended December 31, 2022, the Company recorded a decrease in FVLCS of biological asset transformation of $7.8 million, and a realized fair value gain on amounts included in inventories sold of $8.2 million, for an overall gross profit of $42.6 million and gross margin of 39.3%. During the year ended December 31, 2021, the Company recorded a decrease in FVLCS of biological asset transformation of $3.8 million, and a realized fair value gain of $0.1 million, for an overall gross profit of $22.3 million and gross margin of 37.1%. Year over year changes were a result of changes to the assumptions used in the underlying fair value calculations, decreases in the market price for bulk flower and trim during 2022, decreases to the cultivation costs as the Company has been more efficient in processing raw materials and the elimination of the State of California's cultivation tax during the quarter ended June 30, 2022.

Total Operating Expenses

During the years ended December 31, 2022 and 2021, the Company incurred total operating expenses of $83.9 million and $39.3 million, respectively. The increase in total operating expenses was primarily related to the following items:

• An increase in general and administrative expenses of $24.6 million, to $48.1 million for the year ended December 31, 2022 compared to $23.5 million for the year ended December 31, 2021. The increase in general and administrative expenses was primarily attributable to the following items:

(i) A $14.0 million increase in salaries and benefits from additional headcount assumed in connection with the Urbn Leaf Acquisition and the Loudpack Acquisition, net of restructuring fees. The Company's headcount as at December 31, 2022 was approximately 450 employees compared to approximately 230 employees as at December 31, 2021. Upon closing the Urbn Leaf Acquisition and the Loudpack Acquisition, the Company's headcount increased to approximately 750 employees. The Company continues to consolidate operational functions and anticipates further cost reductions related to salaries and benefits.

(ii) A $7.6 million increase in office and general expenses related primarily to higher corporate insurance premiums for the combined companies and general security and facility expenses for retail dispensaries and manufacturing facilities. During the third and fourth quarter of 2022, the Company implemented cost savings initiatives to reduce office and general expenses that included reduction of spending across all business lines, elimination of redundant services and subscriptions and re-negotiating contracts with vendors.

(iii) A $1.4 million increase in banking and processing fees due to the increase in retail locations in connection with the Urbn Leaf Acquisition as well as a general increase in the number of banking relationships.

• An increase in depreciation and amortization of $7.9 million, to $10.1 million in the year ended December 31, 2022 compared to $2.2 million in the year ended December 31, 2021. The increase was primarily due to the additional property, plant and equipment acquired in connection with the Urbn Leaf Acquisition and the Loudpack Acquisition, as well as the opening of the Haight Ashbury Dispensary and the Grossmont Dispensary in April 2022.

• An increase in share-based compensation of $4.0 million, to $4.8 million in the year ended December 31, 2022 compared to $0.8 million in the year ended December 31, 2021. The increase resulted from expense recognized on a higher amount of unvested grants of stock options and RSUs as of the year ended December 31, 2022.

• An increase in M&A transaction expenses of $3.1 million, to $8.7 million in the year ended December 31, 2022 compared to $5.6 million for the year ended December 31, 2021 that were related to the Urbn Leaf Acquisition and the Loudpack Acquisition.

Operating Income (Loss)

As the Company continues to scale and integrate its business, it is incurring operating losses. The Company's loss from operations for the year ended December 31, 2022 totaled $237.8 million. The Company is focused on optimizing its operations, leveraging the assets it acquired and realizing synergies from expanding the size of its overall business and further vertically integrating its operations. In addition, the Company continues to identify and launch additional integration and growth efforts which are expected to further improve profitability.

Total Other Income (Expense)

For the year ended December 31, 2022, other expense was $10.1 million, comprised primarily of net interest expense of $15.9 million, loss on sale of business of $7.2 million and a foreign exchange loss of $1.5 million. Other expense was offset by a $16.1 million reduction in the Company's Provisions for IRC §280E.

Provision for Income Taxes

During the year ended December 31, 2022, the Company recorded a benefit for income taxes of $6.9 million. During the year ended December 31, 2021, the Company recorded a benefit for income taxes of $1.8 million. The increase was a result of the Company's higher gross profits and reflect the expected burden of the permanent tax differences imposed on the Company by IRC §280E.

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

Overall, the net loss for the year ended December 31, 2022 was $240.4 million (net loss of $1.12 per share), compared to a net loss of $26.2 million (net loss of $0.38 per share) for the year ended December 31, 2021.

Reconciliation of Non-IFRS Measures

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

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

Adjusted Gross Profit & Adjusted Gross Margin

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

	Three Months Ended December 31,		Years Ended December 31,	
	2022	**2021**	**2022**	**2021**
	$	$	**$**	$
Net Revenue	**25,536**	15,061	**108,248**	60,301
Gross Profit	**10,488**	2,261	**42,554**	22,342
Adjusted for:				
Net effect of change in fair value less cost to sell of biological asset transformation	**336**	2,574	**(419)**	3,750
Adjusted Gross Profit	**10,824**	4,835	**42,135**	26,092
Adjusted Gross Margin	**42.4%**	32.1%	**38.9%**	43.3%

After adjusting for the net effect of the change in fair value less cost to sell of biological asset transformation, the Adjusted Gross Profit for the three months and year ended December 31, 2022 was $10.8 million and $42.1 million, respectively. The Adjusted Gross Margin for the three months and year ended December 31, 2022 was 42.4% and 38.9%, respectively. After adjusting for the net effect of the change in fair value less cost to sell of biological asset transformation, the Adjusted Gross Profit for the three months and year ended December 31, 2021 was $4.8 million and $26.1 million, respectively. The Adjusted Gross Margin for the three months and year ended December 31, 2021 was 32.1% and 43.3%, respectively.

Adjusted EBITDA & Adjusted EBITDA Margin

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

As reflected in the following table, after adjusting for depreciation and amortization, interest, provisions for income taxes, other non-cash and extraordinary non-recurring items, share-based compensation, the non-cash effects of accounting changes in biological asset adjustments and derivative liabilities, Adjusted EBITDA for the three months and year ended December 31, 2022, was ($4.9) million and ($18.7) million, respectively. During the three months and year ended December 31, 2022, the Adjusted EBITDA Margin was (19.2%) and (17.3%), respectively. The Adjusted EBITDA for the three months and year ended December 31, 2021, was ($2.8) million and $0.9 million, respectively, and the Adjusted EBITDA Margin was (18.3%) and 1.4%, respectively.

	Three Months Ended December 31,		Years Ended December 31,	
	2022	2021	2022	2021
Net income (loss) attributable to StateHouse Holdings Inc.	$ (196,260)	$ (27,739)	$ (240,226)	$ (26,158)
Adjusted for:				
Biological assets adjustments	336	2,574	(419)	3,750
Share-based compensation	901	277	4,842	788
Write-down (recovery) of receivables and investments and advances	-	-	-	(116)
Impairment loss	196,291	25,233	196,291	25,233
Depreciation and amortization	3,624	1,041	10,224	2,164
Depreciation included in COGS	444	491	1,985	2,065
Interest expense	4,774	684	15,935	3,225
Fair value change in other assets and derivative liabilities	7	(1,082)	(1,711)	(11,583)
Foreign exchange (gain) loss	434	16	1,462	(144)
Provision	-	-	(16,102)	(5,296)
Loss on sale of business	11	-	7,168	-
Non-recurring expenses	-	564	75	3,072
Non-recurring expenses - M&A and transaction expenses	-	1,522	8,698	5,608
Income tax benefit (expense)	(15,457)	(6,333)	(6,944)	(1,778)
Adjusted EBITDA	$ (4,895)	$ (2,752)	$ (18,722)	$ 830
Adjusted EBITDA Margin	-19.2%	-18.3%	-17.3%	1.4%

Summary of Significant Accounting Policies

See Note 2, *Summary of Significant Accounting Policies* in the 2022 Financial Statements for the Company's disclosures on the significant accounting policies. The significant accounting policies applied in the preparation of the 2022 Financial Statements have been applied consistently to all periods presented in the 2022 Financial Statements.

The Company implemented new accounting policies related to balances due from other entities, revenue recognition for loyalty rewards programs for acquired operations and assets held for sale, as described in Note 2 to the 2022 Financial Statements. The Company also reclassified its excise, cultivation and property tax liability from accounts payable and accrued liabilities and reclassified its prepaid expenses and other current assets.

Adoption of New Accounting Policies

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

IAS 41 Agriculture

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IAS 41. The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flow when measuring fair value of a biological assets using a present value technique. This will ensure consistency with the requirements in IFRS 13, *Fair Value Measurement*. The amendment is effective for annual periods beginning on or after January 1, 2022.

New, Amended, and Future Pronouncements

The Company has implemented all applicable IFRS standards recently issued by the IASB. Pronouncements that are either not applicable or, where it has been determined they do not have a significant impact to the Company, have been excluded herein.

The Company is currently assessing the impact that adopting new standards or amendments will have on its consolidated financial statements. No material impact is expected upon the adoption of the following new standards which have been issued but are 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*. The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Pursuant to the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023 (extended from January 1, 2022), with earlier application permitted.

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

In February 2021, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, and IFRS Practice Statement 2, *Making Materiality Judgments*. The amendments help entities provide accounting policy 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 make on the basis of those financial statements.

- Providing guidance in IFRS Practice Statement 2 to explain and demonstrate the application of the four-step materiality process to accounting policy disclosure. The amendments shall be applied prospectively.

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

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

In February 2021, the IASB issued amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.* The amendments introduce a new definition of 'accounting estimates' to replace the definition of 'change in accounting estimates' and also include clarifications intended to help entities distinguish changes in accounting policies from changes in accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

IAS 12 Income Taxes (Amendment)

In May 2021, the IASB issued amendments to the recognition exemptions under IAS 12, *Income Taxes*. The amendments narrowed the scope of the recognition exemption to require an entity to recognize deferred tax on initial recognition of particular transactions, to the extent the transaction gives rise to equal amounts of deferred tax assets and liabilities. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted.

Critical Accounting Estimates and Judgments

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

Business combinations

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

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

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

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

Fair value of biological assets and inventories

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

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

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

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

The valuation of work in process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for inventories. The Company must also determine if the cost of any inventories exceeds its net realizable value ("NRV"), such as cases where prices have decreased, or inventories have spoiled or otherwise been damaged. The Company estimates the NRV of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

Provision for expected credit losses ("ECL")

Determining a provision for ECLs for accounts receivable held at amortized cost requires management to make assumptions about the historical patterns for the probability of default, timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

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 take into account factors such as economic conditions, market conditions and the useful lives of assets.

Amortization of intangible assets is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgment. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account 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 CGU is the greater of its fair value less costs to sell or its value in use. If the carrying amount of an asset or a CGU exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss for the amount by which the carrying amount of the asset exceeds the recoverable amount.

Goodwill impairment

When determining the recoverable amount of the CGU or CGUs to which goodwill is allocated, the Company relies on a number of different factors, including historical results, business plans, forecasts and market data. Changes in the condition for these judgments and estimates can significantly affect 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 of the renewal options offered. Several material factors are considered in determining if the renewal option would be exercised, such as length of the renewal, renewal rate, and ability to transfer locations.

Share-based payment arrangements

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

Such judgments and assumptions are inherently uncertain and changes in these assumptions will affect the fair value estimates.

Compound financial instruments

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

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

Income taxes

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

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

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

Provisions

The Company recognizes provisions if there is a present obligation (legal or constructive) that has arisen as 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 December 31, 2022 and December 31, 2021 relates to uncertain tax positions under IRC §280E for PMACC and San Jose Wellness Solutions Corp. ("SJW"), permanent and temporary differences on the Company's federal income tax returns and underpayments on federal income tax liabilities.

Many of the central issues relating to the interpretations of IRC §280E remain unsettled, and there are critical accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E). The Company evaluated these uncertain tax treatments, using a probability weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 – *Uncertainty over Income Tax Treatments* ("IFRIC 23") and, although the Company strongly disagrees with the positions taken by the IRS and the findings of the U.S. Tax Court, it has determined that a reserve for uncertain tax position should be recorded for all years which are subject to statutory review and which do not have negotiated payment arrangements in place with the IRS. On July 28, 2022, the Company entered into the IRS Agreement in relation to a portion of the uncertain tax positions for PMACC. The amount recognized as a provision reflects the Company's obligations due under the IRS Agreement and management's best estimate of the consideration required to settle the remaining uncertain tax positions at the reporting date, considering the risks and uncertainties surrounding the obligation.

Going concern

At the end of each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations. The conclusion that the

Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends and are consistent with those used to evaluate impairment of goodwill and intangible assets as at December 31, 2022.

As indicated in Note 20 of the 2022 Financial Statements, the Company has recognized a provision for particular 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 uncertain tax position through monthly installment payments of $50,000 which began on August 1, 2022.

Outside of the Company's IRS Agreement for PMACC, the timing of additional payments arising from these or any future uncertain tax positions is expected to exceed twelve months from the date the 2022 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 of the tax litigation and appeals process, and its ability to raise funds.

Working Capital and Liquidity Outlook[2]

Overview

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

As at December 31, 2022, the Company had total current assets of approximately $29.8 million, including cash and restricted cash of approximately $3.4 million, to settle current liabilities of approximately $129.2 million, for a net working capital deficiency of approximately $99.4 million. As at December 31, 2021, the Company had current assets of approximately $27.1 million, including cash and restricted cash of approximately $9.1 million, to settle current liabilities of approximately $70.6 million, for a net working capital deficiency of approximately $43.5 million. The Company has had recurring losses of approximately $240.4 million and $26.2 million for the years ended December 31, 2022 and 2021, respectively. In addition, the Company had negative cash flows from operating activities for the year ended December 31, 2022 of approximately $37.1 million.

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

The Company's plan to ensure operational continuity includes the implementation of its cost savings plan, and various strategic actions, including the divesture 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 April 20, 2023, the Company obtained an extension on its senior secured debt, however, the Company will need to refinance or obtain additional funding in order to pay down the debt at the extended maturity date of May 22, 2023. 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.

[2] This section contains forward-looking information and is based on a number of risks and assumptions, including those described under "Assumptions and Expectations". See "Cautionary Note Regarding Forward-Looking Statements".

The amount of current liabilities as at December 31, 2022 and 2021, of approximately $129.2 million and $70.6 million, respectively, includes the provision for an uncertain tax position related to IRC §280E, and the estimated federal income taxes payable as at period-end. Although the provision is shown in current liabilities, only $0.6 million is expected to be paid within the next twelve months in accordance with the IRS Agreement entered into by the Company on July 28, 2022. The remaining balance in the provision relates to uncertain tax positions in which the Company does not currently expect any material payments resulting from its IRC §280E provision to be made within 12 months of the issuance date of the 2022 Financial Statements. See "Provisions" for additional information.

Selected Cash Flow Information for the Three Months and Years Ended December 31, 2022 and 2021

	Three Months Ended December 31,		Years Ended December 31,	
$ in thousands	2022	2021	2022	2021
Net cash (used in) provided by:				
Net Loss	$ (196,432)	$ (27,803)	$ (240,955)	$ (26,368)
Adjustments for items not involving cash	207,222	30,743	235,903	23,877
Changes in non-cash working capital items	(14,961)	(7,213)	(32,007)	(12,794)
Operating activities	(4,171)	(4,273)	(37,058)	(15,285)
Financing activities	(1,405)	(408)	28,798	27,707
Investing activities	(64)	(433)	3,888	(13,917)
Effect of foregin exchange on cash and restricted cash	(371)	(67)	(1,300)	127
Net increase (decrease) in cash and restricted cash	(6,011)	(5,182)	(5,672)	(1,368)
Cash and restricted cash, beginning of period	9,430	14,272	9,091	10,459
Cash and restricted cash, end of period	$ 3,419	$ 9,091	$ 3,419	$ 9,091

Operating Activities

Net cash used in operating activities totaled ($4.2) million and ($4.3) million for the three months ended December 31, 2022 and 2021, respectively. The cash used in operating activities during both periods was primarily due to adjustments to reconcile net loss to cash.

Net cash used in operating activities totaled ($37.1) million for the year ended December 31, 2022, compared to net cash used in operating activities of ($15.3) million for the year ended December 31, 2021. The increase in cash used in operating activities was primarily due to adjustments to reconcile net loss to cash and the increase in the Company's operating assets and liabilities. The higher use of cash is attributable to the Company settling significant payables related to the Urbn Leaf Acquisition and the Loudpack Acquisition for trade accounts payable and tax liabilities, as well as cash used post acquisitions to build back inventory reserves. In addition, the Company had increases in prepaid expenses and other current assets related to consolidated corporate insurance and directors' and officers' insurance policies.

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

Financing Activities

Net cash used in financing activities totaled $1.4 million for the three months ended December 31, 2022, compared to net cash used in financing activities of $0.4 million for the three months ended December 31, 2021. The Company's financing activities during the three months ended December 31, 2022 consisted of payment of principal on lease liabilities.

Net cash provided by financing activities totaled $28.8 million for the year ended December 31, 2022, compared to net cash provided by financing activities of $27.7 million for the year ended December 31, 2021. The Company's financing activities during the year ended December 31, 2022 consisted of net proceeds of approximately $46.7 million from the Term Loan, offset by a $12.0 million paydown on the Facility, $4.9 million of payments of principal on lease liabilities and $1.0 million repayments of notes payable. Net cash provided by financing activities for the year ended December 31, 2021 was attributable to gross proceeds of $27.6 million (approximately C$35.1 million) from the brokered private placement offering units of the Company which closed on February 18, 2021, offset by $0.7 million of cash issuance costs. The Company received net proceeds of $11.8 million from the draw on the Facility offset by a $9.7 million paydown of notes payable and $1.5 million payments of principal on the lease liabilities.

Investing Activities

Net cash used in investing activities totaled $0.1 million for the three months ended December 31, 2022, compared to net cash used in investing activities of $0.4 million for the three months ended December 31, 2021. The activity during the three months ended December 31, 2022 and 2021 related to purchases of property and equipment.

Net cash provided by investing activities totaled $3.9 million for the year ended December 31, 2022, compared to net cash used in investing activities of $13.9 million for the year ended December 31, 2021. The activity during the year ended December 31, 2022 was related to cash received from the Urbn Leaf Acquisition of $3.3 million and cash received from the Loudpack Acquisition of $1.3 million, offset by purchases of property and equipment of $0.7 million. The activity during the year ended December 31, 2021 was related to the $5.0 million investment in the 15% senior secured convertible debentures of Loudpack purchased through one of the Company's subsidiaries on March 5, 2021, $1.0 million related to the purchase of a note receivable, $0.9 million of the settlement of pre-existing relationships related to the Sublime Acquisition and the DHS Acquisition, cash paid (net of cash received) for the Sublime Acquisition and DHS Acquisition of $0.4 million and $3.4 million, respectively, as well as investments in property, plant and equipment of $1.6 million related to the Company's upgrade of one of its greenhouses at the Salinas Production Campus and $1.2 million to build out the Haight Ashbury Dispensary.

Contractual Obligations

In addition to the commitments outlined in Note 12, *Right-of-use Assets and Lease Liabilities*, and Note 30, *Commitments and Contingencies*, of the 2022 Financial Statements, the Company has the following contractual obligations as at December 31, 2022:

$ in thousands	**Less than 1 Year**	**1 to 3 Years**	**4 to 5 Years**	**> 5 Years**	**Total**
Accounts payable and accrued liabilities	$ 44,412	$ -	$ -	$ -	$ 44,412
Notes payable	8,577	27,164	100	40	35,881
Excise, cultivation and property tax liabilities	24,718	1,080	-	-	25,798
IRS Agreement	600	1,800	1,200	1,350	4,950
Term Loan	-	5,798	5,363	66,139	77,300
	$ 78,307	$ 35,842	$ 6,663	$ 67,529	$ 188,341

Commitments and Contingencies

See Note 30, *Commitments and Contingencies,* in the 2022 Financial Statements for the Company's disclosures on commitments and contingencies.

Off-Balance Sheet Arrangements

As at December 31, 2022, and the date of this MD&A, the Company does not have any off-balance sheet arrangements.

Related Party Transactions

See Note 29, *Related Party Transactions and Key Management and Director Compensation,* in the 2022 Financial Statement for the Company's disclosures on related party transactions.

Capital Management

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no material changes to the Company's capital management approach during the years ended December 31, 2022, and 2021, respectively.

Financial and Risk Management

The Company is exposed to a variety of financial instrument related risks and is exposed to liquidity risk, credit risk, interest rate risk, foreign exchange risk, equity price risk, asset forfeiture risk and banking risk. Management, in conjunction with the Board, mitigates these risks by assessing, monitoring and approving the Company's risk management processes. See Note 32, *Financial Risk Management*, in the 2022 Financial Statements for the Company's financial instruments, financial risk factors, and other instruments. The Company's financial risk activities are governed by the appropriate policy and procedures and financial risks are identified, measured and managed in accordance with Company policies and risk appetite.

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

Tax Risk

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

Regulatory Risk

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

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

Issued and Outstanding Share Capital

As at December 31, 2022, the Company had the following securities issued and outstanding on a fully diluted basis, expressed as the number of Common Shares issuable upon conversion or exercise, as applicable, of such securities:

Designation of Securities	**Number of Underlying Common Shares**
Subordinate Voting Shares	252,488,436
Options	21,558,975
Restricted Share Units	3,875,000
Warrants	16,175,900
Total Fully Diluted Share Capital	**294,098,311**

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

Designation of Securities	**Number of Underlying Common Shares**
Common shares	252,955,803
Options	21,558,975
Restricted Share Units	3,225,000
Warrants	16,175,900
Total Fully Diluted Share Capital	**293,915,678**

Subsequent Events

Gia Calhoun, individually and on behalf of all others similarly situated v. FLRish, Inc.

On January 6, 2020, FLRish, Inc. ("FLRish") was served with a complaint filed by plaintiff and putative class representative Ms. Gia Calhoun. The complaint, filed on December 17, 2019 in the U.S. Federal District Court for the Northern District of California, alleges violations of the Telephone Consumer Protection Act (47 USC §227 et seq.) ("TCPA") and sought class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Ms. Calhoun. On December 9, 2022, the parties agreed to resolve this matter and the matter of John Doe v. FLRish Inc. The parties executed a settlement agreement on January 31, 2023.

New dispensary

On January 19, 2023, the Company opened Urbn Leaf WeHo. The Company operates Urbn Leaf WeHo pursuant to the terms of 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 period of twenty years.

Customer Loyalty Program TOPS

On January 26, 2023, the Company announced a new customer loyalty program (the "TOPS Program"). The TOPS Program, which replaced the Company's previous loyalty rewards program offered at its Urbn-Leaf branded retail dispensaries is available to customers of the Company's retail dispensaries through the state of California. Customers enrolled in TOPS will receive 1 point per $1 spent (taxes excluded) as well as 1.5 points per $1 spent on in-house brands, including Kingpen, Kingroll, Fuzzies, Sublime, Urbn Leaf, Loudpack, Smokiez, Harborside Farms, Dime Bag and Key. As of the date of this MD&A, the TOPs program had approximately 250,000 members.

Senior Secured Debt Extensions

In December 2020, Urbn Leaf received a loan (the "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%.

On January 26, 2023, the Company entered into an agreement to extend the maturity date of the Senior Secured Debt to February 28, 2023. On February 28, 2023, the Company entered into an agreement to further extend the maturity date of the Senior Secured Debt to April 20, 2023. On April 20, 2023, the Company entered into an agreement to further extend the maturity date of the Senior Secured Debt to May 22, 2023. The Company continues to engage in discussions related to potential future financing options.

Subsequent FGW Agreement

On February 15, 2023, the Company received regulatory approvals for the Subsequent Shares under the Subsequent FGW Agreement. The Company intends to convert the FGW Note in accordance with its terms and acquire the Subsequent Shares in FGW during the second quarter of 2023.

Partnership with Refined Genetics

On February 22, 2023, the Company entered into a cultivation partnership with Refined Genetics, LLC ("Refined Genetics"). Refined Genetics is an industry leader in genetic development and commercial propagation of world class cannabis cultivars. Through its strategic investments in plant genomics, breeding technologies, and commercial propagation, Refined Genetics is able to develop and deliver superior cultivars for the future of the cannabis industry. The Company and Refined Genetics will conduct quarterly performance trials before selecting promising new genetics to participate in the Company's genetic trialing program (the "Genetic Trialing Program"). The Genetic Trialing Program will allow the Company and Refined Genetics to grow and assess these genetics alongside a commercial-scale flower crop. Once harvested, greenhouse crop performance and finished flower will be evaluated by the Company's sales and marketing teams, and the Company will then select and self-propagate the highest-performing genetics while honoring a royalty on every plant harvested.

Alexander Fang v. Sublime Machining, Inc. and Sublime Concentrates, Inc. v. Sublime Machining Inc. Settlement Agreement

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. 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.

Cannabis Research Coalition

On March 8, 2023, the Company joined the Cannabis Research Coalition ("CRC"), a collaborative research partnership between The Hemp Mine and Clemson University. The partnership will address cannabis cultivation and postharvest challenges. The CRC partners with cannabis industry stakeholders to advance the exploration of the cannabis plant and implement science-based research to develop the techniques required to create a sustainable, efficient and profitable industry. The Company expects to benefit from CRC's cooperative research model as it will provide the Company's cultivation teams with the tools needed to stay competitive while further enhancing quality.

Membership Assignment

On March 13, 2023, the Company entered into a membership interest assignment and settlement agreement (the "Lafayette Membership Agreement"). Pursuant to the terms of the Lafayette Membership Agreement, the Company has agreed to assign its 90% membership interest in Lafayette Street Property Management LLC (Lafayette") back to the existing partners and make a $120,000 payment for back rent owed on the property held by Lafayette, located in Stockton, California, in exchange for the satisfaction and cancellation of an unsecured, non-interest bearing note (the "Lafayette Note").

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

On December 30, 2022, UL Holding Inc. received a summons and compliant 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, pursuant to which the Company agreed to make settlement payments over time.

Employee Retention Credit ("ERC")

Subsequent to year-end, the Company received approximately $5,300,000 of ERC funds, pursuant to the Coronavirus Aid, Relief and Economic Security Act. The ERC program 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.

Disclosure of Internal Controls over Financial Reporting

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

COVID-19 Strategy[3]

During the pandemic, the Company has been able to maintain operations and expand delivery services to customers located in Oakland, San Jose and the Greater East Bay and Peninsula areas and increase curbside pick-up and/or drive-thru options at its retail locations to provide additional fulfilment models that are safe and efficient for employees and customers. Management has not observed any material indicators of impairment to assets or a significant change in the fair value of assets due to the COVID-19 pandemic. While the Company has not experienced any material failure to secure critical supplies or services, future disruptions in its supply chain are possible and may significantly increase cost. The Company implemented additional in-store safety and sanitation protocols in accordance with the guidance of the Centers for Disease Control and Prevention ("CDC") at all locations to better protect the health and safety of both employees and customers. The Company also emphasized its continued efforts to align labor costs with customer demand, cut all non-essential operational expenses, hold off on any non-accretive operational and capital projects and suspend all non-essential supplier contracts. Ensuring that customers continue to have safe and uninterrupted access to its products, as well as maintaining high quality grow, cultivation, production, and manufacturing capabilities, will be critical to the Company's success. The Company is re-assessing its response to the COVID-19 pandemic on an ongoing basis. Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact of these developments on all aspects of the business.

Risk Factors

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

[3] This section contains forward-looking information and is based on a number of risks and assumptions, including those described under "Assumptions and Expectations". See "Cautionary Note Regarding Forward Looking Statements".

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

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

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

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

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

The Company operates in and/or has ownership interests in California and Oregon, pursuant to state and local law and regulations. StateHouse's retail dispensaries serve both adult-use and medical cannabis customers. Harborside-branded retail dispensaries in California are located in Oakland, San Jose, San Leandro, San Francisco and Desert Hot Springs. StateHouse also owns a dispensary located in Eugene, Oregon which operates under the Terpene Station brand. The Company holds a 21% ownership interest in FGW, which operates the Haight Ashbury Dispensary. Pursuant to the terms of the Subsequent FGW Agreement and conversion of the FGW Note, StateHouse's ownership interest in FGW is expected to increase to 80%. Following the closing of the Urbn Leaf Acquisition, the Company holds a 100% ownership interest in Urbn Leaf, a company that operates retail dispensaries in San Diego, San Ysidro, La Mesa, Grossmont, Vista, Grover Beach, Seaside, San Jose and West Hollywood. The Company's retail dispensaries have over 15 continuous years of operating history.

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

The Company owns a number of different cannabis brands that it sells through wholesale and retail markets including "Fuzzies", "Loudpack", "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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

U.S. Federal Budget Rider Protection

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

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

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

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

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

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

Asset forfeiture risk

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

Unfavorable tax treatment of cannabis businesses

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

Limited trademark protections

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

Reliance on third-party service providers

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

Customs and Border Protection

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

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

Admissibility to the U.S. may be denied to any person working or "having involvement in" the cannabis industry, according to CBP. Inadmissibility in the U.S. implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver. Note that while the CBP previously publicized the foregoing policy on its website during the Trump Administration, the agency appears to have archived the webpage.

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

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

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

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

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

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

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

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

The following represents the approximate portion of certain assets on StateHouse's consolidated statements of financial position that pertain to U.S. cannabis activities as at December 31, 2022:

Statements of Financial Position Line Items	**Percentage (%) which related to holdings with U.S. cannabis-related activities**
Cash	46%
Restricted cash	9%
Accounts receivable, net	100%
Inventories	100%
Biological assets	100%
Prepaid expenses and other current assets	42%
Notes receivable	68%
Assets held for sale	100%
Investments and advances	100%
Property, plant and equipment, net	100%
Right-of-use assets	100%
Deposits and other assets	100%
Intangible assets	100%
Goodwill	100%

The following represents the approximate operating exposure on StateHouse's consolidated statements of income (loss) and comprehensive income (loss) that pertain to U.S. cannabis activities for the year ended December 31, 2022:

Statements of Income (Loss) and Comprehensive Income (Loss) Line Items	**Percentage (%) which related to holdings with U.S. cannabis-related activities**
Net revenue	100%
Cost of goods sold	100%
Changes in fair value less costs to sell of biological assets transformation	100%
Realized fair value amounts included in inventory sold	100%
General and administrative expenses	94%
Professional fees	45%
M&A and transactional expenses	10%
Share-based compensation	100%
Allowance for expected credit losses	100%
Write-downs (recovery) of receivables and investments and advances	100%
Depreciation and amortization	100%
Interest income (expense), net	83%
Other income (expense), net	100%
Provisions	100%
Loss on sale of business	100%
Fair value gain in other current assets and derivative liabilities	55%
Gain (loss) on debt extinguishment	100%
Foreign exchange gain (loss)	-

(viii) Summary of applicable state regulations in California and Oregon

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

<u>California</u>

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

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

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

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

On June 27, 2017, the Legislature passed state Senate Bill No. 94, also known as the "Medicinal and Adult-Use Cannabis Regulation and Safety Act" ("MAUCRSA"), which amalgamated the MCRSA and AUMA frameworks to provide a single uniform statute governing both medical and adult-use cannabis businesses, and authorizing the adoption of regulations, a licensing regime, and state taxes for cannabis businesses in the state. On November 16, 2017, the state introduced initial "emergency" regulations proposed by the BCC (within the California Department of Consumer Affairs), the Manufactured Cannabis Safety Branch (within the California Department of Public Health ("MCSB")) and CalCannabis (within the California Department of Food and Agriculture ("CalCannabis,") and together with the BCC and MCSB, the "Licensing Agencies"), which were ultimately adopted. The regulations built on MCRSA and AUMA and reinforced compliance with local laws as a prerequisite to compliance with the state regulations. On January 1, 2018, the new state regulations took effect, and the first legal adult-use cannabis businesses opened in California.

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

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

In response to the spread of COVID-19, on March 19, 2020, Governor Newsom issued Executive Order N-33-20 directing all residents immediately to stay home and remain sheltered, except as needed to maintain continuity of operations of essential critical infrastructure sectors and additional sectors as the State Public Health Officer (the "SPHO") may designate as critical to protect the health and well-being of all Californians. In accordance with this order, the SPHO designated a list of Essential Critical Infrastructure Workers, which included cannabis workers. In addition, cannabis operations were also deemed essential and encouraged to remain open under the various shelter-in-place orders issued by the applicable local county health officers.

Oregon

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

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

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

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

Like California licensees, holders of cannabis licenses in Oregon are subject to a detailed regulatory scheme encompassing security, staffing, sales, manufacturing standards, testing, inspections, storage, inventory, advertising and marketing, product packaging and labeling, records and reporting, transportation and delivery, tracking of commercial cannabis activity and movement of cannabis and cannabis products across the supply chain, maintaining adequate controls against the diversion, theft, and loss of cannabis or cannabis products, and more. As with all jurisdictions, the full regulations, as promulgated by each applicable licensing agency, should be consulted for further information about any particular operational area.

Similar to California, Governor Brown also deemed cannabis an essential business in Oregon and has allowed cannabis operators to remain open during the COVID-19 pandemic.

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

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

The Company's cannabis goods are produced in full compliance with all applicable state laws and regulations. The goods are tested for potency and safety by independent laboratories licensed by the DCC, and all other consumer protection and youth access-prevention laws are adhered to, including but not limited to state packaging, labeling, marketing and advertising laws. All applicable local and state cannabis taxes are paid and remitted to the applicable taxing authorities.

In order to satisfy regulations intended to prevent diversion to the illicit market, the Company employs inventory control and reporting systems that document the present location, amount, and a description of all cannabis goods at all StateHouse entities. All cannabis goods are tracked from seed to shelf using METRC technology, and other integrated systems adopted by the Company. Cannabis inventory is regularly manually reconciled against METRC according to the regulations. The Company performs regular monthly manual inventory reconciliations.

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

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

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

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

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

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

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

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

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

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

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

Management's Responsibility for Financial Information

Management is responsible for all information contained in this MD&A. The Company's consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the 2022 Financial Statements in all material aspects.

Approval

The Company's audit committee (the "Audit Committee") has reviewed the 2022 Financial Statements and this MD&A with management of the Company. At the recommendation of the Audit Committee, the Board has approved the 2022 Financial Statements and the disclosures contained in this MD&A.

May 4, 2023

Edward M. Schmults
CEO and Director