

StateHouse Reports Fourth Quarter and Year-End 2022 Financial Results

FY 2022 revenue increased 80% to \$108.2 million with a 62% improvement in annual gross profit to \$42.1 million

Expects to achieve positive EBTIDA in 2023 and maintains focus to become cash flow positive before the end of 2023

SAN DIEGO and TORONTO, May 05, 2023 -- [StateHouse Holdings Inc.](#) ("StateHouse" or the "Company") (CSE: STHZ) (OTCQX: STHZF), a California-focused, vertically integrated cannabis enterprise, today announced its financial results for the three- and twelve-month periods ended December 31, 2022 ("Q4 2022" and "FY 2022", respectively), and provided additional business updates. The consolidated financial statements for Q4 2022 and FY 2022, as well as the corresponding management's discussion and analysis are available for download from the Company's investor website, [statehouseholdings.com](#), and on the Company's SEDAR profile. Unless otherwise indicated, all dollar amounts in this press release are denominated in U.S. currency.

Management Commentary

"2022 was a foundational year for StateHouse, as we came together to realize our full combined potential as a unified business and a leading California-focused cannabis company," said Ed Schmults, Chief Executive Officer of StateHouse. "The substantial integration work we have completed in this past year has strongly positioned us to execute on the considerable opportunities ahead in California. This market presents unique challenges that we are successfully navigating, thanks to our fully integrated supply chain and ability to leverage our industry leading scale to accelerate our growth initiatives."

"We anticipate realizing additional synergies throughout 2023 to further reduce costs, optimize operations, and improve profitability to deliver long-term value for our shareholders. With these initiatives underway we are on track to deliver on our target of positive EBITDA⁽¹⁾⁽³⁾ in 2023 and to generate positive cash flow before the end of the year⁽³⁾."

"It was a year of progress for us, and I want to sincerely thank our amazing team. They completed a significant amount of integration work in short order to get us where we are. I expect our efforts to continue to drive improvements in our business over the next year as we strive to become the leading operator in California."

Q4 2022 & FY 2022 Highlights

- Total net revenues were \$108.2 million for FY 2022, an increase of 79.4% compared with \$60.3 million in FY 2021. Total net revenues for Q4 2022 increased 68.8% to \$25.5 million, compared with \$15.1 million in Q4 2021.
- Gross profit before adjustments for biological assets for FY 2022, increased 61.3% to \$42.1 million compared to \$26.1 million in gross profit for FY 2021. Gross profit before adjustments for biological assets for Q4 2022, increased 124% to \$10.8 million, compared with \$4.8 million in Q4 2021.
- Consolidated gross margins were 39.3% of revenues for FY 2022 and 42.4% for Q4 2022, compared to 37.1% of revenues in FY 2021 and 32.1% for Q4 2021.
- Retail revenues were \$63.0 million, representing 58.1% of total sales for FY 2022, an increase of \$24.3 million compared to FY 2021.
- FY 2022 cultivation yields in the Company's Salinas facility were up 101.0% over FY 2021 due to improved practices.
- Strengthened the senior management team with the appointments of Kavi Bhai, as Chief Financial Officer, Shawn Shevlin as VP of Operations and Megan Gordon as VP of Wholesale Sales, to the team.
- Entered a strategic partnership with one of California's largest cannabis distributors, under which the Company is outsourcing all its distribution. The partnership is expected to result in significant cost savings⁽²⁾ for the Company, through lower headcount and reduction in costs related to insurance, fuel, truck leasing, banking fees, bad debts, and overtime pay.

Operations Update⁽²⁾

While Q4 2022 revenues sequentially declined from Q3 2022, the Company increased gross margin by approximately \$1 million or 10%. Additionally, the Company is focused on improving its balance sheet and working capital by reducing accounts receivable and inventory balances by approximately \$3 million and \$4 million, respectively, during Q4 2022.

As of December 31, 2022, the Company has reduced SG&A from Q2 2022 by approximately \$36 million on an annualized basis. These reductions have been achieved through a comprehensive evaluation of Company operations, including process improvements, outsourcing of distribution, upgraded and consolidated technology, and the elimination of redundant operations and service providers. As a result, the Company also reduced headcount approximately 44% from April 2022 to year-end. Management reduced headcount an additional 16% from January 1, 2023 to April 30, 2023. Management is also exploring the potential sale of various non-core assets, which is expected to generate approximately \$1-3 million of non-dilutive capital⁽³⁾ to strengthen its balance sheet and fund its growth objectives⁽²⁾.

The Company has continued to execute on improvements at its cultivation operations, with significant enhancements being

made at its Salinas facility. The Company expects flower yields and efficiency to improve during 2023 through infrastructure investments, to increase CO2 and light distribution, which will while it continues to reduce costs and drive efficiency.

In its retail operations, the Company has focused on increasing profitability despite competitive pressures related to sales discounting. Gross margins have held steady as the Company moves further towards its goal of in-house branded products representing approximately 40% of total retail sales.

The Company has completed a number of integration milestones to establish itself as a leading California cannabis company. StateHouse is now well positioned as a focused, integrated CPG business with proprietary production, processing, brands, and retail stores. This strong platform will provide the foundation for growth, as well as improvements in profitability. Based on current strength of the business and what has been achieved to date, the Company expects to generate materially positive Adjusted EBITDA⁽¹⁾⁽³⁾ in 2023, and to begin generating positive cash flow before the end of 2023⁽³⁾.

Notes:

(1) This is a non-IFRS reporting measure. For a reconciliation of this to the nearest IFRS measure, see “Use of Non-IFRS Measures” and “Non-IFRS Measures” in the Company’s management discussion and analysis for the period ended December 31, 2022. See “Non-IFRS Measures, Reconciliation and Discussion”.

(2) This is forward-looking information and based on a number of assumptions. See “Cautionary Note Regarding Forward-Looking Information” below.

(3) These targets, and the related assumptions, involve known and unknown risks and uncertainties that may cause actual results to differ materially. While StateHouse believes there is a reasonable basis for these targets, such targets may not be met. These targets represent forward-looking information. Actual results may vary and differ materially from the targets. See “Cautionary Note Regarding Forward-Looking Information” and “Assumptions” below.

About StateHouse Holdings Inc.

StateHouse, a vertically integrated enterprise with cannabis licenses covering retail, major brands, distribution, cultivation, nursery and manufacturing, is one of the oldest and most respected cannabis companies in California. Founded in 2006, its predecessor company Harborside was awarded one of the first six medical cannabis licenses granted in the United States. Today, the Company operates 14 dispensaries covering Northern and Southern California and one in Oregon, distribution facilities in San Jose and Los Angeles, California and integrated cultivation/production facilities in Salinas and Greenfield, California. StateHouse is a publicly listed company, currently trading on the Canadian Securities Exchange (“CSE”) under the ticker symbol “STHZ” and the OTCQX under the ticker symbol “STHZF”. The Company continues to play an instrumental role in making cannabis safe and accessible to a broad and diverse community of California and Oregon consumers.

Cautionary Note Regarding Forward-Looking Information

This news release contains “forward-looking information” and “forward-looking statements” (collectively, “forward-looking statements”) within the meaning of the applicable Canadian and United States securities legislation. To the extent any forward-looking information in this news release constitutes “financial outlooks” or “future-oriented financial information” within the meaning of applicable Canadian securities laws, the reader is cautioned not to place undue reliance on such information. All statements, other than statements of historical fact, are forward-looking statements and are based on expectations, estimates, and projections as at the date of this news release. Any statement that involves discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, future events or performance (often but not always using phrases such as “expects”, or “does not expect”, “is expected”, “anticipates” or “does not anticipate”, “plans”, “budget”, “scheduled”, “forecasts”, “estimates”, “believes” or “intends” or variations of such words and phrases or stating that certain actions, events or results “may” or “could”, “would”, “might” or “will” be taken to occur or be achieved) are not statements of historical fact and may be forward-looking statements. In this news release, forward-looking statements include, among other things, statements relating to potential future growth, future financial performance including but not limited to the company’s ability to generate materially positive Adjusted EBITDA⁽¹⁾⁽³⁾ in 2023, and to begin generating positive cash flow before the end of 2023⁽³⁾, the company’s ability to increase the sale of in-house branded products, sale of various non-core business assets, cost savings related to the strategic partnership with NABIS, future financings and the potential rescheduling or de-scheduling of cannabis under the Controlled Substances Act, and the potential benefits of this change to StateHouse.

These forward-looking statements are based on reasonable assumptions and estimates of management of the Company at the time such statements were made. Actual future results may differ materially as forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to materially differ from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors, among other things, include: implications of the COVID-19 pandemic on the Company’s operations; fluctuations in general macroeconomic conditions; fluctuations in securities markets; expectations regarding the size of the cannabis markets where the Company operates; changing consumer habits; the ability of the Company to successfully achieve its business objectives; plans for expansion and acquisitions; political and social uncertainties; inability to obtain adequate insurance to cover risks and hazards; employee relations; the presence of laws and regulations that may impose restrictions on cultivation, production, distribution, and sale of cannabis and cannabis-related products in the markets where the Company operates; and the risk factors set out in the Company’s management’s discussion and analysis for the year ended December 31, 2022 and the Company’s listing statement dated May 30, 2019, which are available under the Company’s profile on www.sedar.com. Although the forward-looking statements contained in this news release are based upon what management of the Company believes, or believed at the time, to be reasonable assumptions, the Company cannot assure shareholders that actual results will be consistent with such forward-looking statements, as there may be other factors that cause results not to be as anticipated, estimated or intended. Readers should not place undue reliance on the forward-

looking statements and information contained in this news release. The Company assumes no obligation to update the forward-looking statements of beliefs, opinions, projections, or other factors, should they change, except as required by law.

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

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

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

Assumptions

In developing the financial guidance set forth above, StateHouse made the following assumptions and relied on the following factors and considerations:

- The targets are based on StateHouse's historical results including its year-to-date consolidated results of operations.
- The targets are subject to continued cultivation improvement.
- Targeted revenue at our retail dispensaries through the end of the year is based on our year to date results.
- Both retail and wholesale revenue sustainability and growth depend on a variety of factors, including, among other things, location, competition, legal and regulatory requirements. Prices are projected forward at recently realized wholesale and retail prices.
- Cost of goods sold, before taking into account the impact of value changes in biological assets (which are non-cash in nature, and, accordingly, are excluded from calculations of Adjusted EBITDA, have been projected based on estimated costs of production and capacity available from a vertically integrated supply chain. Cost of goods sold relating to inventory purchased from third parties have been projected in line with historical levels.
- SG&A expenses in future periods are assumed to decrease as a percentage of revenues due to inherent scalability of SG&A expenses and our cost cutting initiatives outlined above. Additionally, total SG&A expenses include an allocation for corporate overhead and public company costs.

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

For the latest news, activities, and media coverage, please visit <https://www.statehouseholdings.com>, <https://shopharborside.com> and <https://urbnleaf.com> and connect with us on LinkedIn and Twitter.

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