

StateHouse Reports First Quarter 2023 Financial Results

Q1 2023 revenue increased 43% to \$24.7 million with a 98% improvement in gross profit before biological asset adjustments to \$10.9 million

Q1 2023 operating expenses decreased \$3.0 million from the previous quarter

Expanded retail footprint with the opening of 14th California dispensary located in West Hollywood

Conference call to be held today, May 31, 2023, at 8:30 a.m. ET

SAN DIEGO and TORONTO, May 31, 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-month period ended March 31, 2023 ("Q1 2023"), and provided additional business updates. The unaudited condensed interim consolidated financial statements for Q1 2023, 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

"We're off to a fantastic start in 2023," said Ed Schmults, Chief Executive Officer of StateHouse. "Our focus remains on driving unparalleled customer satisfaction and loyalty through innovative product offerings and one of the most valuable customer loyalty programs in the industry. We truly understand the value-conscious mindset of today's consumers and are excited to bring initiatives that will benefit them, such as the TOPS loyalty program and our brand-new line of Liquid Diamond Infused Pre-Rolls. These pocket-friendly packs of three come at an incredibly consumer-friendly price, further enhancing our commitment to delivering exceptional value."

"We were thrilled to expand our retail footprint in the California market with the opening of our highly anticipated West Hollywood Urbn Leaf location on the iconic sunset strip. The Company is managing the Urbn-Leaf branded retail location through a management service agreement. This location boasts a knowledgeable staff providing premium service and high-quality products for both the adult-use and medical consumer communities. With a meticulously curated selection of flower, pre-rolls, edibles, and accessories, we have experienced an incredibly positive customer response in its first few months of operations."

"With our fully integrated supply chain and industry leading scale we anticipate realizing additional cost synergies throughout this year through the addition of new automation capabilities and further refinement and optimization of our operations. In April we celebrated our momentous one-year anniversary as a unified powerhouse, propelling ourselves to the forefront of the California cannabis landscape. It has been an exciting year and we believe our unwavering pursuit of excellence throughout this integration has strongly positioned us on the right pathway to success."

Q1 2023 Highlights

- Q1 2023 net revenues were \$24.7 million, an increase of 42.8% compared with \$17.3 million in Q1 2022.
 - Retail revenues were \$14.4 million, representing 58.5% of total sales for Q1 2023, an increase of \$2.8 million compared to Q1 2022.
- Gross profit before adjustments for biological assets increased 98% to \$10.9 million in Q1 2023, compared with \$5.5 million in Q1 2022.
- Consolidated gross margins improved to 44.3% in Q1 2023, compared to 31.9% for Q1 2022.
- Q1 2023 cultivation yields in the Company's Salinas facility were up 101.0% over Q1 2022 due to improved practices.
- Increased retail presence in California with the opening of the Company's 14th in-state dispensary, which the Company will manage through a management service agreement. The new Urbn Leaf dispensary has a premier location in West Hollywood: a prominent spot on Sunset Boulevard.
- Launched high-value customer loyalty program "TOPS". Customers enrolled in TOPS will receive 1 point per \$1 dollar spent (taxes excluded), as well as 1.5 points per \$1 dollar spent on in-house brands. Subject to certain terms and conditions, TOPS members can receive \$10 in savings for every 100 points earned. As of the end of Q1 2023, the program has more than 250,000 loyalty members enrolled.
- Introduced a new line of Liquid Diamond Infused Pre-Rolls under the Company's Dime Bag brand. The pre-rolls are available in pocket-friendly packs of three at all the Company's 14 dispensaries, as well as in the California wholesale market.
- Joined the Cannabis Research Coalition ("CRC"), a collaborative research partnership between The Hemp Mine and Clemson University. StateHouse expects to benefit from the coalition's cooperative research model as it will provide the Company's cultivation teams with the tools needed to stay competitive while further enhancing quality.
- Entered a cultivation partnership with Refined Genetics LLC, an industry leader in genetic development and commercial

propagation of world class cannabis cultivars.

Operations Update⁽²⁾

While Q1 revenues declined slightly sequentially due to seasonal factors and reduced foot traffic in retail, the Company has continued to generate strong gross profit before biological asset adjustments and gross margin of \$10.9 million or 44.3% of total revenue. Additionally, during Q1, the Company reduced operating expenses from the prior quarter by approximately \$12.0 million annualized. 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. Management reduced headcount an additional 16% from January 1, 2023 to May 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 that will increase CO2 and light distribution, which will foster cannabis yields and potency 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 improvements in the business and what has been achieved to date, the Company expects to generate positive Adjusted EBITDA⁽¹⁾⁽³⁾ and to begin generating positive cash flow before the end of 2023⁽³⁾.

Conference Call

StateHouse will host a conference call today, May 31, 2023, to discuss these results. Ed Schmults, Chief Executive Officer and Kavi Bhai, Chief Financial Officer will host the call starting at 8:30 a.m. Eastern time. A question-and-answer session will follow management's prepared remarks.

CONFERENCE CALL DETAILS

DATE:	Wednesday, May 31 st , 2023
TIME:	8:30 a.m. Eastern Time
WEBCAST REGISTRATION:	Click Here
DIAL-IN REGISTRATION:	Click Here

Financial results and analyses are also available on the Company's website (statehouseholdings.com).

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 three months ended March 31, 2023. 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://urbanleaf.com> and connect with us on LinkedIn and Twitter.

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