STATEHOUSE HOLDINGS INC.
Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2024 and 2023
(Expressed in United States Dollars)

STATEHOUSE HOLDINGS INC.
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NOTICE TO READER

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

Management's Responsibility for Financial Reporting

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

The accompanying unaudited condensed interim consolidated financial statements were prepared by management of the Company ("Management") and were reviewed by the Audit Committee of the Company and approved by the Board of Directors of the Company (the "Board").

Management is responsible for the unaudited condensed interim consolidated financial statements and believes that they fairly present the Company's financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company's unaudited condensed interim consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of the financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These unaudited condensed interim consolidated financial statements were approved by the Board of the Company and were signed on behalf of Management by:

August 29, 2024

/s/ Edward M. Schmults	*/s/ Kavi Bhai*
Chief Executive Officer	*Chief Financial Officer*

STATEHOUSE HOLDINGS INC.

Unaudited Condensed Interim Consolidated Statements of Financial Position
As At June 30, 2024 and December 31, 2023
(Expressed in United States Dollars, except share amounts)

	Note	June 30, 2024	December 31, 2023
ASSETS			
Current Assets			
Cash		$ 2,056,714	$ 2,429,973
Accounts receivable, net	3	8,584,941	7,458,146
Inventories	4	7,745,917	7,127,259
Biological assets	5	777,155	859,165
Prepaid expenses	6	2,329,473	2,161,347
Notes receivable	7	1,680,516	1,991,265
Assets held for sale	10	7,442,879	7,186,649
Total current assets		30,617,595	29,213,804
Property, plant and equipment, net	8	74,180,353	76,426,735
Right-of-use assets	9	11,706,826	12,180,020
Deposits and other assets		126,741	126,741
Due from other entities		3,188,787	3,070,615
Deferred tax asset	18	1,653,249	2,065,637
TOTAL ASSETS		$ 121,473,551	$ 123,083,552
LIABILITIES			
Current liabilities			
Accounts payable	11	$ 25,496,388	$ 24,340,272
Accrued liabilities, payroll and loyalty rewards	11	19,354,127	14,937,313
Accrued local, sales and property taxes	11	2,542,922	4,771,732
Notes payable - current	12	26,680,945	703,943
Term loan - current	13	5,797,500	-
Accrued excise and cultivation tax liabilities - current	11	21,662,430	17,884,700
Lease liabilities - current	9	1,344,916	1,402,097
Liabilities associated with assets held for sale	10	9,126,716	8,610,746
Income taxes payable		53,646,698	39,625,437
Provisions	15	20,913,973	20,213,224
Total current liabilities		186,566,615	132,489,464
Notes payable, net	12	19,114,110	44,258,598
Term loan, net	13	69,851,561	75,351,031
Accrued excise and cultivation tax liabilities, net of current		-	3,024,000
Derivative liabilities	14	4,024,697	4,215,509
Income taxes payable, net of current		-	4,300,000
Lease liabilities	9	20,532,897	21,126,920
TOTAL LIABILITIES		300,089,880	284,765,522
SHAREHOLDERS' DEFICIT			
Share capital	19	228,219,589	228,219,589
Contributed surplus	20	18,989,246	18,267,913
Reserve for warrants	21	1,709,844	1,709,844
Accumulated deficit		(428,705,239)	(411,069,131)
Non-controlling interests	22	1,170,231	1,189,815
TOTAL SHAREHOLDERS' DEFICIT		(178,616,329)	(161,681,970)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT		$ 121,473,551	$ 123,083,552

Commitments and contingencies (Note 25)

Approved on behalf of the Board of Directors:

/s/ Edward M. Schmults	*/s/ Felicia Snyder*
Director	Director

The accompanying notes are an integral part of these consolidated financial statements

STATEHOUSE HOLDINGS INC.

Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in United States Dollars, except share amounts)
For the Three and Six Months Ended June 30, 2024 and 2023

		For the Three Months Ended		For the Six Months Ended	
			As Restated (Note 2.1)		**As Restated (Note 2.1)**
		June 30, 2024	**June 30, 2023**	**June 30, 2024**	**June 30, 2023**
Net revenue		$ 27,769,677	$ 25,340,493	$ 53,176,108	$ 49,998,589
Cost of goods sold		13,650,734	13,512,625	27,243,384	27,743,489
Gross profit before biological asset adjustments		14,118,943	11,827,868	25,932,724	22,255,100
Changes in fair value less costs to sell of biological asset transformation	5	768,398	934,738	(169,128)	(335,690)
Realized fair value amounts included in inventory sold		(32,711)	(617,236)	821,890	697,375
Gross profit		14,854,630	12,145,370	26,585,486	22,616,785
Operating expenses					
General and administrative	16	8,933,561	10,235,843	18,084,196	21,704,813
Professional fees		2,058,411	2,102,866	3,765,396	4,045,339
Share-based compensation	20	183,395	453,891	721,333	1,249,286
Allowance for expected credit losses		270	(2,104)	773,409	791,591
Depreciation and amortization	8 & 9	332,315	1,280,078	1,451,100	2,554,347
Total operating expenses		11,507,952	14,070,574	24,795,434	30,345,376
Operating income (loss)		3,346,678	(1,925,204)	1,790,052	(7,728,591)
Interest income (expense), net		(4,182,111)	(4,747,422)	(8,636,252)	(8,939,826)
Other income (expense), net		378,813	6,593,326	550,927	6,788,523
Loss on sale of business		305,797	-	306,255	-
Gain on assignment of non-controlling interests		-	8,154	-	439,582
Fair value gain in derivative liabilities	6 & 14	4,128,668	41,874	190,812	436,389
Foreign exchange gain (loss)		1,026,252	(1,887,382)	101,491	53,132
Total other income (expense)		1,657,419	8,550	(7,486,767)	(1,222,200)
Net income (loss) before income taxes		5,004,097	(1,916,654)	(5,696,715)	(8,950,791)
Income tax expense	18	(4,794,632)	(595,406)	(11,958,977)	(4,441,544)
Net income (loss)		209,465	(2,512,060)	(17,655,692)	(13,392,335)
Net income (loss) attributable to non-controlling interests		757	(385,413)	(19,584)	(662,277)
Net income (loss) attributable to StateHouse Holdings Inc.		$ 208,708	$ (2,126,647)	$ (17,636,108)	$ (12,730,058)
Weighted average number of shares outstanding					
Basic	23	255,429,080	252,909,947	255,429,080	252,695,330
Diluted	23	292,845,889	252,909,947	255,429,080	252,695,330
Net income (loss) per share					
Basic	23	$ -	$ (0.01)	$ (0.07)	$ (0.05)
Diluted	23	$ -	$ (0.01)	$ (0.07)	$ (0.05)
Comprehensive income (loss):					
Net income (loss)		$ 209,465	$ (2,512,060)	$ (17,655,692)	$ (13,392,335)
Comprehensive income (loss) attributable to non-controlling interests		757	(385,413)	(19,584)	(662,277)
Comprehensive income (loss) attributable to StateHouse Holdings Inc. shareholders		$ 208,708	$ (2,126,647)	$ (17,636,108)	$ (12,730,058)

The accompanying notes are an integral part of these consolidated financial statements

STATEHOUSE HOLDINGS INC.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Deficit
For the Three and Six Months Ended June 30, 2024 and 2023
(Expressed in United States Dollars, except share amounts)

	Note	Share capital	Contributed Surplus	Warrants	Accumulated Deficit	Subtotal	Non-controlling interests	Equity incl. non-controlling interests
Balance, January 1, 2022		**$ 227,564,822**	**$ 15,952,820**	**$ 1,709,844**	**$ (411,069,131)**	**$ (165,841,645)**	**$ 2,901,915**	**$ (162,939,730)**
Share-based compensation	20	-	1,249,286	-	-	1,249,286	-	1,249,286
Assignment of non-controlling interest	19	-	(140,593)	-	-	(140,593)	140,593	-
Net loss for the period		-	-	-	(12,730,058)	(12,730,058)	(662,277)	(13,392,335)
Balance, June 30, 2023		**$ 227,564,822**	**$ 17,061,513**	**$ 1,709,844**	**$ (423,799,189)**	**$ (177,463,010)**	**$ 2,380,231**	**$ (175,082,779)**

	Note	Share capital	Contributed Surplus	Warrants	Accumulated Deficit	Subtotal	Non-controlling interests	Equity incl. non-controlling interests
Balance, January 1, 2024		**$ 228,219,589**	**$ 18,267,913**	**$ 1,709,844**	**$ (411,069,131)**	**$ (162,871,785)**	**$ 1,189,815**	**$ (161,681,970)**
Share-based compensation	20	-	721,333	-	-	721,333	-	721,333
Net loss for the period		-	-	-	(17,636,108)	(17,636,108)	(19,584)	(17,655,692)
Balance, June 30, 2024		**$ 228,219,589**	**$ 18,989,246**	**$ 1,709,844**	**$ (428,705,239)**	**$ (179,786,560)**	**$ 1,170,231**	**$ (178,616,329)**

The accompanying notes are an integral part of these consolidated financial statements

STATEHOUSE HOLDINGS INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2024 and 2023
(Expressed in United States Dollars, except share amounts)

	Note	For the Six Months Ended June 30, 2024	June 30, 2023
Operating Activities			
Net loss for the period		$ (17,655,692)	$ (13,392,335)
Adjustments to reconcile net loss to cash flow:			
Share-based compensation	20	721,333	1,249,286
Depreciation and amortization	8 & 9	3,399,524	4,389,825
Changes in fair value less costs to sell of biological asset transformation	5	(768,398)	335,690
Fair value gain in derivative liabilities	14	(190,812)	(436,389)
Provision for expected credit losses	3	270	791,591
Interest income on notes receivable	24	-	(40,122)
Amortization of other current assets and debt issuance costs		298,030	202,340
Accrued interest on lease liabilities	9	1,204,435	1,570,359
Loss on disposal of business and property, plant and equipment	8	54,762	21,529
Change in assets held for sale		148,505	(319,606)
Foreign exchange gain		(1,026,252)	(53,132)
		(13,814,295)	(5,680,964)
Changes in working capital:			
Accounts receivable, net	3	(1,127,011)	(850,554)
Inventories	4	(618,658)	1,437,277
Biological assets	5	850,408	(806,509)
Prepaid expenses	6	(168,063)	1,890,711
Notes receivable	7	310,749	162,250
Due from other entities		(118,177)	(570,120)
Deposits and other assets		-	213,520
Deferred tax asset		412,388	-
Accounts payable and accrued liabilities	11	3,337,927	5,427,053
Excise and cultivation liabilities	11	753,730	(2,444,385)
Income tax payable	18	9,721,261	6,851,725
Provisions	15	700,749	302,783
Accrued interest on note payable	12	832,514	597,248
Deferred tax liability	18	-	(4,236,730)
Cash Flows provided by (used in) Operating Activities		1,073,522	2,293,305
Financing Activities			
Payments of principal portion of lease liabilities	9	(1,855,639)	(2,298,485)
Cash Flows (used in) provided by Financing Activities		(1,855,639)	(2,298,485)
Investing Activities			
Purchases of property, plant and equipment	8	(623,475)	(174,995)
Cash Flows (used in) provided by Investing Activities		(623,475)	(174,995)
Decrease in cash		(1,405,592)	(180,175)
Effects of foreign exchange on cash		1,032,333	37,495
Cash, beginning of period		2,429,973	3,419,112
Cash, end of period		$ 2,056,714	$ 3,276,432
Supplementary Information			
Cash paid during the period for:			
Interest		$ 912,455	$ 4,955,777
Non-Cash Investing and Financing Activities			
Expiry of Broker Warrants		$ -	$ 466,716

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of Operations

StateHouse Holdings Inc. ("StateHouse" or the "Company"), through its affiliated entities, is a fully licensed, vertically integrated omni-channel cannabis company, with its business consisting of three primary segments: (i) retail sales, including direct to consumer and delivery, (ii) branded wholesale and manufacturing revenue, including wholesale product sales to dispensary customers and other distributors, "white label" manufactured products for other third-party businesses who typically put their own branding on the product, and revenue from the distribution of products for other cannabis companies, and (iii) cultivation, including the sale and delivery of cannabis in the wholesale market and cultivation management services. The Company operates in and/or has ownership interests in California, pursuant to state and local laws and regulations, and is focused on building and maintaining its position as one of California's premier vertically integrated cannabis companies.

As at June 30, 2024, the Company owned and operated a cultivation and production facility in Salinas, California (the "Salinas Production Campus") and a manufacturing facility in Greenfield, California.

The Company's high quality integrated seed-to-sale operations are focused on building winning brands which are supported by its omni-channel ecosystem. The Company owns a number of different cannabis brands, including: "Fuzzies", "Loudpack", "King Pen", "King Roll", "Dime Bag", "Harborside", "Harborside Farms", "Key", "Terpene Station", "Sublime", and "Urbn Leaf". In addition, the Company exclusively licenses the "Smokiez" brand in California.

As at June 30, 2024, the Company's retail presence includes the following:

- Four owned and operated Harborside-branded retail dispensaries located in Oakland, San Jose, San Leandro and Desert Hot Springs, California. The dispensaries located in San Leandro and Desert Hot Springs were listed as held for sale as at June 30, 2024. The dispensary located in Desert Hot Springs suspended daily operations in January 2024;
- Six owned and operated Urbn Leaf-branded retail dispensaries located in San Diego, San Ysidro, Grover Beach, La Mesa, San Jose and Vista, California. The dispensaries located in San Jose and La Mesa were listed as held for sale as at June 30, 2024;
- An 80% interest in FGW Haight Inc. ("FGW"), a company which operates a Harborside-branded retail dispensary in the Haight Ashbury district of San Francisco (the "FGW Dispensary"). FGW opened the FGW Dispensary under the Harborside brand in April 2022; and,
- Direct to consumer retail delivery services which cover the greater San Francisco Bay Area of California (from its Harborside-branded retail stores in Oakland and San Jose) and the Grover Beach and Bay Park areas (from its Urbn Leaf-branded stores in each of these areas).

On January 9, 2023, the Company entered into a management services agreement with UL Management LLC and PDLP JV, LLC (the "Urbn Leaf WeHo Service Agreement") to manage and operate a dispensary under the Urbn Leaf brand in West Hollywood, California. The Urbn Leaf WeHo Service Agreement has an initial term of five years, and is subject to three automatic renewals of five years for a total of 20 years. The Company had a right to acquire a 50% ownership in PDLP JV, LLC for no additional consideration. On December 30, 2022, the Company exercised its right to acquire a 50% ownership in PDLP JV, LLC and is awaiting final approval from the City of West Hollywood, which the Company anticipates final approval during the year ended December 31, 2024.

On April 26, 2024, the Company entered into an Agreement for Sale and Purchase with Addisian LLC for the sale of its membership interests in LGC LOR DIS 2, LLC ("LGCLORDIS2"), the entity that owned and operated the dispensary located in Eugene, Oregon (the "LGCLORDIS2 Sale") (Note 7).

The Company's Common Shares are listed on the Canadian Securities Exchange under the trading symbol "STHZ" and on the OTCQB Expert Market under the trading symbol "STHZF".

(Expressed in United States Dollars, except share amounts)

1. Nature of Operations (continued)

The Company's registered office is located at Bay Adelaide Centre - North Tower, 40 Temperance St., Suite 3200, Toronto, Ontario M5H 0B4, Canada, and the Company's head office is located at 1028 Buenos Ave., San Diego, California 92110, United States.

2. Summary of Significant Accounting Policies

2.1 Statement of Compliance and Basis of Measurement

The Company's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2024, including comparatives, have been prepared in accordance with International Accounting Standards 34 - *Interim Financial Reporting*. Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee, have been omitted or condensed. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2023, and the related notes thereto, and have been prepared using the same accounting policies described therein.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the Company's Board on August 29, 2024.

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

For comparative purposes, the Company has reclassified certain items on the comparative Unaudited Condensed Interim Consolidated Statements of Financial Position to conform with the current period's presentation. The items reclassified were as follows:

	Previously reported	After reclassification
Due from other entities	$ 2,325,070	$ 3,070,615
Deposits and other assets	$ 872,286	$ 126,741

Restatement

The Company restated its previously reported unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2023, and all related disclosures. The restatement followed a review of the Company's consolidated financial statements and accounting records that was undertaken as part of the audit of the consolidated financial statements for the year ended December 31, 2023.

(Expressed in United States Dollars, except share amounts)

2. Summary of Significant Accounting Policies (continued)

2.1 Statement of Compliance and Basis of Measurement (continued)

Restatement (continued)

The Company has reclassified depreciation and amortization expense from expenses to a component of cost of goods sold. The following is a summary of the impact of the restatement on the previously reported Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss):

	For the three months ended June 30, 2023		For the six months ended June 30, 2023	
	As Reported	As Restated	As Reported	As Restated
Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)				
Cost of goods sold	$ 13,012,625	$ 13,512,625	$ 26,743,489	$ 27,743,489
Gross profit before biological asset adjustments	$ 12,327,868	$ 11,827,868	$ 23,255,100	$ 22,255,100
Gross profit	$ 12,645,370	$ 12,145,370	$ 23,616,785	$ 22,616,785
Depreciation and amortization	$ 1,780,078	$ 1,280,078	$ 3,554,347	$ 2,554,347
Expenses	$ 14,570,574	$ 14,070,574	$ 31,345,376	$ 30,345,376

2.2 Going Concern

As at June 30, 2024, the Company had cash of $2,056,714 and a working capital deficit of $155,949,020. Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted into cash within one year. The Company has experienced recurring net losses attributable to the Company of $17,636,108 and $12,730,058 for the six months ended June 30, 2024 and 2023, respectively, and has an accumulated operating deficit of $428,705,239 as at June 30, 2024. In addition, the Company had cash flows from operating activities for the six months ended June 30, 2024 of $1,073,522. Management anticipates that the Company will continue to incur cash deficits until such time as revenues exceed operating costs, cash interest expense, creditor obligations, capital expenditures, and working capital requirements 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 for operational continuity includes the implementation of its cost savings plan and various strategic actions, including (i) negotiating terms of its debt agreements with the Company's lenders, (ii) the divesture of non-core assets including but not limited to the current assets held for sale, and (iii) its ongoing revenue strategies to increase market share and retail, branded wholesale and manufacturing, and cultivation. As part of ongoing discussions with the Company's lenders, beginning February 2024, the Company made partial interest payments on the monthly interest balances due.

The Company's annual operating plan for fiscal year 2024 estimates that the Company will be able to sustain current operations. However, the Company's cash needs are significant and not achievable with 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. Summary of Significant Accounting Policies (continued)

2.2 Going Concern (continued)

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

2.3 Functional Currency

The functional currency of the Company and each of its subsidiaries is the United States ("U.S.") dollar. Unless otherwise indicated, these unaudited condensed interim consolidated financial statements are presented in U.S. dollars ($ or "USD"). All references to "C$" or "CAD" pertain to Canadian dollars.

2.4 Basis of Consolidation

These unaudited condensed interim consolidated financial statements incorporate the accounts of the Company and its subsidiaries as follows:

Name	Jurisdiction	Purpose	Percentage Owned (%) June 30, 2024	Percentage Owned (%) December 31, 2023
Statehouse Holdings Inc. (formerly Harborside Inc.)	Ontario, Canada	Parent	100	100
658 East San Ysidro Blvd LLC	California, U.S.	Real Estate Holding Company	100	100
680 Broadway Master, LLC	California, U.S.	Operating Company	100	100
909 West Vista Way LLC	California, U.S.	Real Estate Holding Company	100	100
Accucanna Holdings Inc.	California, U.S.	Holding Company	100	100
Accucanna LLC	California, U.S.	Operating Company	100	100
Accucanna RE, LLC	California, U.S.	Operating Company	100	100
Auric Valley, Inc.	California, U.S.	Holding Company	100	100
Banana LLC	California, U.S.	Operating Company	75	75
Belling Distribution, Inc.	California, U.S.	Operating Company	100	100
Benmore LPFN, LLC	Delaware, U.S.	Holding Company	-	100
Calgen Trading Inc.	California, U.S.	Operating Company	100	100
CDRS Investor LLC	California, U.S.	Holding Company	100	100
CDRS Owner LLC	California, U.S.	Holding Company	-	100
Encinal Productions RE, LLC	California, U.S.	Operating Company	100	100
Evergreen LPFN, LLC	California, U.S.	Holding Company	-	100
FFC1, LLC	California, U.S.	Holding Company	100	100
FGW Haight Inc.	California, U.S.	Operating Company	80	80
FLRish Farms Cultivation 2, LLC	California, U.S.	Operating Company	100	100
FLRish Farms Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish, Inc.	California, U.S.	Management Company	100	100
FLRish IP, LLC	California, U.S.	Holding Company	100	100
FLRish Retail, LLC	California, U.S.	Holding Company	100	100
FLRish Retail Management & Security Services, LLC	California, U.S.	Management Company	100	100
Gilded Creek Partners Inc.	California, U.S.	Holding Company	100	100
Greenfield Organix, Inc.	California, U.S.	Operating Company	100	100

(Expressed in United States Dollars, except share amounts)

2. Summary of Significant Accounting Policies (continued)

2.4 Basis of Consolidation (continued)

Name	Jurisdiction	Purpose	Percentage Owned (%) June 30, 2024	Percentage Owned (%) December 31, 2023
Greenfield Prop Owner, LLC	California, U.S.	Real Estate Holding Company	100	100
Greenfield Prop Owner II, LLC	California, U.S.	Real Estate Holding Company	100	100
Haight Acquisition Corporation	Delaware, U.S.	Holding Company	100	100
JLM Investment Group, LLC	California, U.S.	Holding Company	67	67
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
Lineage GCL California, LLC	California, U.S.	Holding Company	100	100
Lineage GCL Oregon Corporation	Oregon, U.S.	Holding Company	100	100
LPF 4th Street, LLC	California, U.S.	Holding Company	100	100
LPF Bellflower, LLC	California, U.S.	Holding Company	100	100
LPF Consulting Group, LLC	California, U.S.	Holding Company	100	100
LPF Michigan LLC	California, U.S.	Holding Company	-	100
LPF Ohio, LLC	California, U.S.	Holding Company	-	100
LPF RE Manager, LLC	California, U.S.	Management Company	100	100
LP-KP IP Holdings, LLC	California, U.S.	Holding Company	100	100
Lunar Management, LLC	California, U.S.	Holding Company	100	100
Oakland Machining Supply SLB LLC	California, U.S.	Holding Company	-	100
Ocean Ranch LPFN, LLC	California, 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	100
San Jose Wellness Solutions Corp.	California, U.S.	Operating Company	100	100
San Leandro Wellness Solutions Inc.	California, U.S.	Operating Company	100	100
SaVaCa, LLC	California, U.S.	Holding Company	100	100
Savature Inc.	California, U.S.	Operating Company	100	100
SBC Management LLC	California, U.S.	Management Company	100	100
Sublimation Inc.	Delaware, U.S.	Holding Company	100	100
ULBP Inc.	California, U.S.	Operating Company	100	100
UL Benicia LLC	California, U.S.	Operating Company	-	70
UL Chula Two LLC	California, U.S.	Operating Company	51	51
UL Holdings Inc.	California, U.S.	Holding Company	100	100
UL Kenamar LLC	California, U.S.	Operating Company	100	100
UL Management LLC	California, U.S.	Management Company	100	100
UL San Jose LLC	California, U.S.	Operating Company	100	100
Unite Capital Corp.	Ontario, Canada	Holding Company	100	100
Uprooted, Inc.	California, U.S.	Operating Company	100	100
Uprooted LM LLC	California, U.S.	Operating Company	100	100

2. Summary of Significant Accounting Policies (continued)

2.4 Basis of Consolidation (continued)

The Company dissolved eight entities during the six months ended June 30, 2024, including: UL Benicia, LLC, Ocean Ranch LPFN, LLC, Oakland Machining Supply SLB, LPF Ohio, LLC, Evergreen LPFN, LLC, LPF Michigan, LLC, Benmore LPFN, CDRS Owner, LLC. LGCLORDIS2, LLC was sold in April 2024. Additionally, subsequent to the six months ended June 30, 2024 the Company dissolved LGC LOR DIS 1, LLC (Note 29).

The unaudited condensed interim consolidated financial statements as at June 30, 2024 and December 31, 2023 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has "control", as such term is defined in IFRS 10 - *Consolidated Financial Statements* ("IFRS 10"). Entities over which the Company has control are presented on a consolidated basis from the date control commences. Control, as defined by IFRS 10 for purposes of determining the consolidated basis of financial statement presentation exists when the Company is exposed to, or has right to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. All of the Company's consolidated entities were under control, as defined in IFRS 10, by the Company, for purposes of determining the consolidated basis of financial statement presentation, during the entirety of the periods for which their respective results of operations were included in the unaudited condensed interim consolidated financial statements. The unaudited condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries that it controls after eliminating intercompany balances and transactions.

2.5 Summary of Significant Accounting Policies

The accounting policies applied in the preparation of the unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2023.

2.6 Financial Instruments

The Company classifies and measures financial instruments in accordance with IFRS 9 - *Financial Instruments* ("IFRS 9"). On initial recognition, a financial asset is classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI"), or amortized cost. Purchases and sales of financial assets are recorded on a settlement date basis.

Subsequent to initial recognition, all investments are measured at fair value. All gains and losses arising from the changes in fair value of investments are presented in the Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in the period in which the gains or losses arise. The Company will only reclassify a financial asset when the Company changes its business model for managing the financial asset. All reclassifications are recorded at fair value at the date of reclassification, which becomes the new carrying value.

i. Financial assets classified at FVTPL

Financial assets are classified as FVTPL if the asset is an equity investment, if the Company has not elected to classify investments as FVTOCI, or if the Company's business model for holding the investment is achieved other than by collecting contractual cash flows and by selling the assets. As at June 30, 2024 and December 31, 2023, the Company did not have any financial assets at FVTOCI.

FVTPL assets are initially recorded at fair value with realized gains and losses on disposition and subsequent changes in fair value recorded in net income (loss). Directly attributable transaction costs are recorded in net income (loss) as incurred.

2. Summary of Significant Accounting Policies (continued)

2.6 Financial Instruments (continued)

ii. Non-derivative financial liabilities

Non-derivative financial liabilities are recognized initially on the date the Company becomes a party to the contractual obligations of the financial instrument. All non-derivative financial liabilities are recognized initially at fair value along with directly attributable transaction costs. Subsequent to initial measurement, non-derivative financial liabilities are measured at amortized cost using the effective interest method.

iii. Derivative financial instruments - warrants and stock options

A financial derivative, such as warrants or stock options, which will be settled with Common Shares is classified as an equity instrument if the derivative is to acquire a fixed number of the Company's own equity instruments for a fixed amount of U.S. dollars.

A financial derivative is considered a financial liability at FVTPL if it is used to acquire a variable number of Common Shares and the stock options or warrants were not offered pro-rata to all existing owners of the class of non-derivative equity instruments.

The following table presents the Company's classification of financial assets and financial liabilities as at June 30, 2024:

Financial assets/financial liabilities	Classification
Cash	Amortized cost
Accounts receivable, net	Amortized cost
Prepaid expenses	Amortized cost
Deposits and other assets	Amortized cost
Due from other entities	Amortized cost
Accounts payable	Amortized cost
Accrued liabilities, payroll and loyalty rewards program	Amortized cost
Accrued local, sales and property taxes	Amortized cost
Notes payable, net	Amortized cost
Term loan, net	Amortized cost
Accrued excise and cultivation tax liabilities	Amortized cost
Derivative liabilities	FVTPL

The Company recognizes a provision for expected credit losses on financial assets that are measured at amortized cost. The Company assumes that the credit risk on a financial asset has increased if it is more than 60 days past due. The Company considers a financial asset to be impaired either when the financial asset is more than 90 days past due, or it is determined that the borrower is unlikely to pay its credit obligations to the Company in full.

The carrying amount of a financial asset is reduced (either partially or in full) if management determines that there is no realistic prospect of recovery. This is generally the case when the Company concludes that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay amounts owed.

2. Summary of Significant Accounting Policies (continued)

2.6 Financial Instruments (continued)

The Company assesses information available including, on a forward-looking basis, the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available and reasonable and supportive forward-looking information. For accounts receivable only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, from the dates of the trade receivables, the Company recognizes a loss provision based on lifetime expected credit losses at each reporting date.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive thereunder. The Company assesses information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

2.7 Critical Accounting Estimates and Judgments

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

Fair value of biological assets and inventories

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

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

2. Summary of Significant Accounting Policies (continued)

2.7 Critical Accounting Estimates and Judgments (continued)

Fair value of biological assets and inventories (continued)

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

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

The valuation of work in process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for inventories. The Company must also determine if the cost of any inventories exceeds its net realizable value ("NRV"), such as instances where prices have decreased, or inventories have spoiled or otherwise been damaged. The Company estimates the NRV of inventories, considering 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

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

Impairment of long-lived assets

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

2. Summary of Significant Accounting Policies (continued)

2.7 Critical Accounting Estimates and Judgments (continued)

Incremental borrowing rate for leases under IFRS 16

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

Leases

Each capitalized lease is evaluated to determine if the Company would exercise any renewal options offered. Several material factors are considered in determining if the renewal option would be exercised, such as length of the renewal, renewal rate, and ability to change locations.

Share-based payment arrangements

The Company measures the cost of equity-settled grants with officers and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair values of share-based grants requires determining the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield and forfeiture rate. Similar calculations are made to value warrants. Such judgments and assumptions are inherently uncertain and changes in these assumptions will affect the fair value estimates.

Compound financial instruments

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

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

Income taxes

Income taxes and tax exposures recognized in the unaudited condensed interim consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. The Company recognizes a liability when, based on its estimates, it anticipates a future income tax payment.

The difference between an expected amount and the final tax outcome has an impact on current and deferred taxes in the period when the Company becomes aware of a difference.

2. Summary of Significant Accounting Policies (continued)

2.7 Critical Accounting Estimates and Judgments (continued)

Income taxes (continued)

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses.

When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

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

Provisions

The Company recognizes provisions if there is a present obligation (legal or constructive) that has arisen as the result of a past event, it is probable that the Company will be required to settle the obligation and the obligation can be reliably estimated. The Company's provision as at June 30, 2024 and December 31, 2023 relates to uncertain tax positions under Internal Revenue Code §280E ("IRC §280E") for Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness Solutions Corp. ("SJW"), permanent and temporary differences on the Company's federal income tax returns and underpayments of federal income tax liabilities.

Many of the central issues relating to the interpretations of IRC §280E remain unsettled, and there are critical accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E). The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 - *Uncertainty over Income Tax Treatment* ("IFRIC 23") and, although the Company strongly disagrees with the positions taken by the Internal Revenue Service ("IRS") and the findings of the U.S. Tax Court, it has determined that a reserve for uncertain tax positions should be recorded for all years subject to statutory review. On July 28, 2022, the Company entered into a partial payment and installment agreement with the IRS (the "IRS Agreement") in relation to a portion of the uncertain tax positions for PMACC (Note 15). 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 long-lived assets as at June 30, 2024.

2. Summary of Significant Accounting Policies (continued)

2.7 Critical Accounting Estimates and Judgments (continued)

Going concern (continued)

As indicated in Note 15, the Company has recognized a provision for uncertain tax positions which are related to PMACC and SJW. The Company has entered into the IRS Agreement for a portion of the uncertain tax position related to PMACC. The Company will be resolving the portion of uncertain tax position subject to the IRS Agreement through monthly installment payments of $50,000 beginning August 1, 2022 (Note 15).

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

Management continues to monitor the Company's operational performance, progress on tax litigation and appeals process, and its ability to service its debt. During the six months ended June 30, 2024, the Company established a special committee ("Special Committee") and appointed Roger Jenkins as Advisor to explore strategic alternatives and engage in negotiations with lenders to strengthen the balance sheet.

These unaudited condensed interim consolidated financial statements do not reflect adjustments to the reported carrying values of assets and liabilities; reported revenues and expenses; or, classifications in the Unaudited Condensed Interim Consolidated Statements of Financial Position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations.

2.8 Adoption of New Accounting Policies

The Company adopted the following standards effective January 1, 2024. These changes were made in accordance with the applicable transitional provision.

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

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

2.9 New, Amended, and Future IFRS Pronouncements

The Company has implemented all applicable IFRS standards recently issued by the IASB. Pronouncements that are not applicable or where it has been determined to not have a significant impact on the Company have been excluded in these unaudited condensed interim consolidated financial statements.

The Company is currently assessing the impact that adopting the new standards or amendments will have on its unaudited condensed interim consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

2.9 New, Amended, and Future IFRS Pronouncements (continued)

The following new standards are issued but not yet effective:

IAS 21 - Lack of Exchangeability

The amendments to IAS 21 clarify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking, as well as require the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable. These amendments are effective for annual periods beginning on or after January 1, 2025, with early adoption permitted.

Because the Company only operates in the United States and Canada, between which the exchange of currency is well-established, this amendment is not expected to have a material impact on the unaudited condensed interim consolidated financial statements of the Company.

IFRS 18 - Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18, which will replace IAS 1, *Presentation of Financial Statements*, and is effective for reporting periods beginning January 1, 2027. IFRS 18 will change the presentation of the Company's financial statements and add new disclosure requirements. Specifically, the new standard requires that: the consolidated income statement to be structured according to operating, investing and financing categories, and include additional subtotals for "Operating Profit" and "Profit Before Financing and Income Taxes", Management defined performance measurements ("MPM's"), which represent certain of the Company's non-IFRS measures, to be identified, defined, and have an explanation why each one is useful. Each MPM must be reconciled to the most directly comparable IFRS subtotal. All disclosures related to MPM's must be disclosed in a single footnote within the consolidated financial statements; and the application of enhanced guidance related to the grouping of financial information associated with amounts presented within the financial statements, otherwise known as aggregation or disaggregation. In addition, the IASB issued amendments to IAS 7, Statement of Cash Flows, to align the presentation of the statement of cash flows, as prepared under the indirect method, to the changes prescribed to the income statement under IFRS 18. The Company has not yet assessed the impact of IFRS 18 and related amendments to IAS 7 on its disclosures.

Amendments to IFRS 9 and IFRS 7

In May 2024, the IASB issued amendments to IFRS 9, *Financial Instruments*, and IFRS 7, *Financial Instruments: Disclosures*. The amendments are effective for reporting periods beginning January 1, 2026. The amendments: (a) clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system; (b) clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest criterion; (c) add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement environment, social and governance targets); and (d) update the disclosures for equity instruments designated at fair value through other comprehensive income. The Company has not yet assessed the impact of these amendments on its financial results and disclosures.

(Expressed in United States Dollars, except share amounts)

2. Summary of Significant Accounting Policies (continued)

2.9 New, Amended, and Future IFRS Pronouncements (continued)

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

This standard sets out overall requirements with the objective to require an entity to disclose information about its sustainability related risks and opportunities that is useful to the primary users of general purpose financial reports in making decisions relating to providing resources to the entity. This standard applies for annual reporting periods beginning on or after January 1, 2025. The Company has not yet assessed the impact on its disclosures.

IFRS S2 Climate-related Disclosures

This standard sets out to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity. The standard applies for annual reporting periods beginning on or after January 1, 2025. The Company has not yet assessed the impact on its disclosures.

3. Accounts receivable, net

The Company's accounts receivable, net was comprised of the following as at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Trade receivables	$ 14,984,519	$ 13,150,714
Sales tax receivables	138,268	42,018
Total	15,122,787	13,192,732
Provision for credit loss	(6,537,846)	(5,734,586)
Total accounts receivable, net	$ 8,584,941	$ 7,458,146

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for expected credit losses.

The Company provides trade credit to its wholesale, white label and distribution customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for these customers is assessed on a quarterly basis and a provision for expected credit losses is recorded where required. The Company does not offer extended payment terms to its retail customers. Retail transactions are paid for at the point of sale. Accordingly, credit risk from retail customers is limited to outstanding balances due from debit card processors. As at June 30, 2024 and December 31, 2023, there was $179,238 and $287,636, respectively, outstanding from debit card processors that is included in trade receivables.

The Company assesses the risk of collectability of accounts receivable on a quarterly basis. Estimates of expected credit losses take into account the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses through the use of a provision for expected credit losses. The provision for expected credit losses reflects the Company's best estimate of probable losses in the trade receivables accounts.

(Expressed in United States Dollars, except share amounts)

3. Accounts receivable, net (continued)

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

	June 30, 2024	December 31, 2023
Balance, beginning of period	$ 5,734,586	$ 2,908,583
Current period additions to provision for expected credit losses	803,260	3,222,939
Amounts reversed	-	(396,936)
Balance, end of period	$ 6,537,846	$ 5,734,586

The Company's aging of accounts receivable was as follows as at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Current	$ 4,463,941	$ 3,138,645
1 - 30 days	1,642,932	1,556,129
31 - 60 days	1,000,955	778,489
61 - 90 days	676,039	654,692
Over 90 days	7,338,920	7,064,777
Total	$ 15,122,787	$ 13,192,732

4. Inventories

The Company's inventory was comprised of the following items as at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Raw materials	$ 875,535	$ 1,148,129
Work-in-process	2,590,841	1,703,004
Finished goods	4,279,541	4,276,126
Total	$ 7,745,917	$ 7,127,259

During the three and six months ended June 30, 2024, inventory expensed to cost of goods sold was approximately $14,355,000 and $20,036,000, respectively. During the three and six months ended June 30, 2023, inventory expensed to cost of goods sold was approximately $10,064,000 and $22,009,000, respectively

Management determined net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to complete a sale. There was no impairment recorded during the three and six months ended June 30, 2024 and 2023, respectively.

5. Biological Assets

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

	June 30, 2024	December 31, 2023
Balance, beginning of period	$ 859,165	$ 441,144
Costs capitalized	6,777,614	11,380,292
Changes in fair value less costs to sell due to biological asset transformation	(169,128)	(1,619,201)
Transferred to inventory upon harvest	(6,690,496)	(9,343,070)
Balance, end of period	$ 777,155	$ 859,165

(Expressed in United States Dollars, except share amounts)

5. Biological Assets (continued)

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and the expected selling price less costs to sell per gram.

The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest. The following inputs and assumptions are all categorized within Level 3 on the fair value hierarchy and were used in determining the fair value of biological assets:

Inputs and assumptions	Description	Correlation between inputs and fair value
Average selling price per gram	Represents the average selling price per gram of dried cannabis net of excise taxes, where applicable, for the period for all strains of cannabis sold, which is expected to approximate future selling prices.	If the average selling price per gram was higher (lower), estimated fair value would increase (decrease).
Average attrition rate	Represents the weighted average number of plants culled at each stage of production.	If the average attrition rate was lower (higher) estimated fair value would increase (decrease).
Weighted average yield per plant	Represents the weighted average number of grams of dried cannabis inventory expected to be harvested from each cannabis plant.	If the weighted average yield per plant was higher (lower), estimated fair value would increase (decrease).
Standard cost per gram to complete production	Based on actual production costs incurred divided by grams produced in the period.	If the standard cost per gram to complete production was lower (higher), estimated fair value would increase (decrease).
Weighted average effective yield	Represents the estimated percentage of harvested product that meets specifications in order to be sold as a dried cannabis product.	If the weighted average effective yield was higher (lower), the estimated fair value would increase (decrease).
Stage of completion in production process	Calculated by taking the weighted average number of days in production over a total average grow cycle of approximately thirteen weeks.	If the number of days in production was higher (lower), estimated fair value would increase (decrease).

Biological assets as at June 30, 2024 and December 31, 2023 include an allocation of depreciation of $51,687 and $130,984, respectively.

The following table quantifies each significant unobservable input, and provides the impact that a 10% increase or decrease in each input would have on the fair value of biological assets at the Salinas Production Campus:

		As at June 30, 2024		As at December 31, 2023	
	Assumptions:	**Input**	**10% change**	**Input**	**10% change**
i	Weighted average of expected loss of plants until harvest [a]	7%	$ 6,003	5%	$ 4,841
ii	Expected yields (dry grams of cannabis per plant) [b]	85 grams	$ 77,719	85 grams	$ 86,296
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	36%	$ 77,719	44%	$ 86,296
iv	Estimated selling price (per gram) [c]	$1.06 per gram dried flower $0.00 per gram dried trim	$ 102,423	$0.87 per gram dried flower $0.00 per gram dried trim	$ 119,583
v	After harvest cost to complete and sell (per gram)	$0.25 per gram dried flower $0.00 per gram dried trim	$ 24,704	$0.26 per gram dried flower $0.00 per gram dried trim	$ 33,287

(Expressed in United States Dollars, except share amounts)

5. Biological Assets (continued)

[a] Weighted average of expected loss of plants until harvest represents loss from plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

[b] Expected average yields for cannabis plants vary based on the mix of strains and number of plants existing at each reporting date. As at June 30, 2024 and December 31, 2023, it was expected the Company's biological assets would yield 37 and 36 grams of dried flower per plant, respectively, and 48 and 49 grams of dried trim per plant, respectively.

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

The Company estimates the harvest yields for cannabis at various stages of growth. As at June 30, 2024 and December 31, 2023, it is expected that the Company's biological assets will yield approximately 2,681,110 and 2,840,271 grams of dry cannabis flower, respectively, and 3,443,463 and 3,061,055 grams of dry trim, respectively, when harvested. The fair value adjustments on biological assets are presented separately in the Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

6. Prepaid Expenses

As at June 30, 2024 and December 31, 2023, prepaid expenses were comprised of the following:

	June 30, 2024	December 31, 2023
Taxes and fees	$ 19,927	$ 37,583
Excise taxes	116,770	122,030
Other prepaid expenses	166,114	171,623
Licenses and other	697,922	639,273
Insurance and rent	1,328,740	1,190,838
Total prepaid expenses	$ 2,329,473	$ 2,161,347

7. Notes Receivable

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

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

7. Notes Receivable (continued)

The note receivable accrues interest at a rate of 10% per annum on the outstanding daily unpaid principal amount. Initial payments on the note receivable began on January 1, 2022. Payments are to be made following a five-year amortization schedule of equal monthly payments following the initial payment date. As at June 30, 2024, principal and accrued interest amounted to $1,345,585. The Company assesses the risk of collectability of accounts receivable on a quarterly basis. As at June 30, 2024, the Company has fully reserved a provision for expected credit losses of $1,345,585, but will continue to pursue the amounts owed.

On March 24, 2022, the Company entered into a settlement agreement (the "Altai Settlement Agreement") with Altai Partnership, LLC ("Altai"). Pursuant to the terms of the Altai Settlement Agreement, Altai agreed to pay an aggregate of $1,250,000 to the Company to settle amounts owed by Altai in connection with advances that had been made by the Company in relation to a binding letter of intent for the Company's acquisition of Lucrum Enterprises Inc. d/b/a LUX Cannabis Dispensary in 2019. In April 2022, the Company received the first installment payable by Altai pursuant to the terms of the Altai Settlement Agreement, in the amount of $500,000. On May 1, 2022, the Company and Altai entered into a convertible secured promissory note (the "Altai Note") for the remaining $750,000 owed pursuant to the terms of the Altai Settlement Agreement. The principal owed under the Altai Note is payable over 36 months beginning on May 15, 2022. As at June 30, 2024, the outstanding principal owed under the Altai Note amounted to $682,000.

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 beginning on April 15, 2023 until March 15, 2028 and a $75,000 balloon payment due on April 15, 2028. Late payments bear interest at 10% per annum. As at June 30, 2024, the outstanding principal owed under the Fang Settlement Agreement was $400,831.

On August 21, 2023, the Company entered into an agreement to sell the ownership interest in UL Visalia LLC, of which the Company owned an 80% ownership interest. UL Visalia LLC held a Cannabis Retailer License in the State of California and a local authorization to conduct a cannabis business in the unincorporated area of Tulare County, California. The sale of the 80% ownership interest of UL Visalia LLC closed on December 22, 2023 for a total of $400,000 of which $15,000 was paid in cash and the remaining consideration of $385,000 is held in a note receivable by UL Holdings Inc. (the "Visalia Note Receivable"). The note receivable is to be received in $5,000 payments each month. As at June 30, 2024, the outstanding principal owed under the Visalia Note Receivable was $350,000.

On October 11, 2023, the Company entered into an agreement to sell its license and operations of its Urbn Leaf-branded retail dispensary located in Grossmont for an aggregate purchase price of $725,000. The buyer shall pay the purchase price in the form of ready-for-sale cannabis flower and assumed liabilities. The Company recognized the remaining consideration outstanding within notes receivable. During the six months ended June 30, 2024 the balance was repaid in full.

On April 26, 2024, the Company completed the LGCLORDIS2 Sale (Note 1), for an aggregate net purchase price of $247,685. The consideration is held in a note receivable (the "LGCLORDIS2 Note"). The amounts owed pursuant to the terms of the LGCLORDIS2 Note are payable on the following schedule: $11,146 of interest only payments payable in installments of $1,858 beginning on May 26, 2024 until October 26, 2024 and $264,600 of principal and interest payable in installments of $5,512 beginning on November 26, 2024 until November 26, 2028. The note bears interest at 9% per annum. As at June 30, 2024, the outstanding principal owed under the LGCLORDIS2 Note was $247,685.

(Expressed in United States Dollars, except share amounts)

7. Notes Receivable (continued)

Notes receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for expected credit loss. The Company did not recognize any provisions for expected credit losses during the three and six months ended June 30, 2024 and 2023.

8. Property, Plant and Equipment, net

As at June 30, 2024 and December 31, 2023, the Company's net property, plant and equipment consisted of the following:

	Land	Retail and Agricultural Buildings	Agricultural and Manufacturing Equipment	CIP	Furniture, Fixtures, and Equipment	Leasehold Improvements	Total
At Cost							
As at December 31, 2022	$ 20,162,718	$ 50,500,156	$11,032,673	$ 822,570	$ 7,376,290	$ 10,973,113	$ 100,867,520
Additions	-	103,250	-	890,683	45,644	27,349	1,066,926
Reclassification*	-	-	-	-	(265,384)	(1,912,320)	(2,177,704)
Disposals and transfers	(239,275)	(1,314,375)	-	(213,430)	(110,168)	(2,514,268)	(4,391,516)
Reclass on completed phase of construction	-	52,919	-	(109,718)	-	56,799	-
As at December 31, 2023	19,923,443	49,341,950	11,032,673	1,390,105	7,046,382	6,630,673	95,365,226
Additions	-	173,685	183,233	266,557	-	-	623,475
Reclassification*	-	-	-	(100,000)	-	-	(100,000)
Disposals and transfers	-	-	-	-	(127,057)	-	(127,057)
As at June 30, 2024	$ 19,923,443	$ 49,515,635	$11,215,906	$ 1,556,662	$ 6,919,325	$ 6,630,673	$ 95,761,644
Accumulated depreciation							
As at December 31, 2022	$ -	$ 4,429,110	$ 5,982,785	$ -	$ 2,381,687	$ 1,117,838	$ 13,911,420
Disposals and transfers	-	(309,740)	225,585	-	(16,350)	(715,882)	(816,387)
Reclassification*	-	-	-	-	(192,719)	(239,038)	(431,757)
Depreciation expense	-	2,392,991	1,542,045	-	1,171,710	1,168,469	6,275,215
As at December 31, 2023	-	6,512,361	7,750,415	-	3,344,328	1,331,387	18,938,491
Disposals and transfers	-	-	-	-	(53,957)	-	(53,957)
Reclassification*	-	-	-	-	-	(18,338)	(18,338)
Depreciation expense	-	833,748	877,004	-	537,860	466,483	2,715,095
As at June 30, 2024	$ -	$ 7,346,109	$ 8,627,419	$ -	$ 3,828,231	$ 1,779,532	$ 21,581,291
Net Book Value							
As at December 31, 2023	19,923,443	42,829,589	3,282,258	1,390,105	3,702,054	5,299,286	76,426,735
As at June 30, 2023	$ 19,923,443	$ 42,169,526	$ 2,588,487	$ 1,556,662	$ 3,091,094	$ 4,851,141	$ 74,180,353

* Reclassification includes the amounts transferred to assets held for sale (Note 10).

(Expressed in United States Dollars, except share amounts)

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

Depreciation expense relating to property, plant and equipment for the three and six months ended June 30, 2024 and 2023 was as follows:

	Three months ended		Six months ended	
	June 30, 2024	**June 30, 2023**	**June 30, 2024**	**June 30, 2023**
Cost of goods sold - wholesale	$ 1,061,013	$ 882,728	$ 1,948,424	$ 1,835,478
Expenses	316,470	672,039	766,671	1,355,789
Total depreciation and amortization relating to property, plant and equipment	$ 1,377,483	$ 1,554,767	$ 2,715,095	$ 3,191,267

9. Right-of-use Assets and Lease Liabilities

Right-of-use Assets

As at June 30, 2024 and December 31, 2023, the Company's right-of-use assets consisted of the following:

	Right-of-use Assets - Buildings
Cost	
Balance as at December 31, 2023	$ 17,584,665
Additions	211,235
Balance as at June 30, 2024	$ 17,795,900
Accumulated amortization	
Balance as at December 31, 2023	5,404,645
Amortization expense	684,429
Balance as at June 30, 2024	$ 6,089,074
Net book value	
As at December 31, 2023	12,180,020
As at June 30, 2024	$ 11,706,826

Lease Liabilities

The Company's lease liabilities consist of various real property leases. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. There were no new leases during the six months ended June 30, 2024 and 2023.

(Expressed in United States Dollars, except share amounts)

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

Lease Liabilities (continued)

The following is a summary of the activity in the Company's lease liabilities for the six months ended June 30, 2024:

Ending lease liabilities as at December 31, 2023	$ 22,529,017
Lease payments	(1,855,639)
Interest expense	1,204,435
Ending lease liabilities as at June 30, 2024	21,877,813
Less: current portion	(1,344,916)
Non-current lease liabilities	$ 20,532,897

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

Due within one year	$ 3,800,506
Due within one to five years	17,766,290
Due after five years	19,199,517
Total undiscounted lease liabilities	40,766,313
Less interest	(18,888,500)
Total present value of minimum lease payments	$ 21,877,813

The Company also leases office and other retail space from related parties (Note 24). The Company recognized no material expenses related to short-term leases and leases of low-value assets for the three and six months ended June 30, 2024 and 2023.

10. Assets and Liabilities Held for Sale

The Company has been actively marketing certain rights and interests in non-core assets of the Company, including cannabis licenses in non-core geographies within California and selected retail operations in Oregon and California. The Company classified the assets as held for sale and valued such assets at their fair value less costs to sell. The Company did not recognize any impairment loss associated with assets held for sale as at June 30, 2024.

Changes in the carrying amount of assets and liabilities held for sale was as follows:

Assets held for sale	
Balance as at December 31, 2023	$ 7,186,649
Change in net realizable value	256,230
Total assets held for sale as at June 30, 2024	$ 7,442,879
Liabilities associated with assets held for sale	
Balance as at December 31, 2023	$ 8,610,746
Change in net realizable value	515,970
Total liabilities held for sale as at June 30, 2024	$ 9,126,716

(Expressed in United States Dollars, except share amounts)

10. Assets and Liabilities Held for Sale (continued)

The Company executed a non-binding term sheet for the sale of the membership interests of Uprooted LM, UL San Jose LLC, San Leandro Wellness Solutions, Inc., and Accucanna, LLC. Although the terms of the agreement are non-binding, the Company expects to execute the sale during the third quarter of fiscal 2024.

The LGCLORDIS2 Sale closed on April 26, 2024 (Note 1 and 7), therefore the assets and liabilities have been included in the amounts disclosed under change in net realizable value.

The assets and liabilities held for sale were comprised of the following as at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Accounts receivable, net	$ 127,754	$ 130,763
Inventories	620,007	530,283
Prepaid expenses and other current assets	123,678	157,655
Property, plant and equipment, net	1,942,597	1,854,940
Right-of-use assets	4,312,386	4,333,028
Deposits and other assets	316,457	179,980
Assets held for sale	$ 7,442,879	$ 7,186,649
Accounts payable	$ 2,825,829	$ 3,167,577
Accrued liabilities, payroll and loyalty rewards program	228,296	89,943
Accrued local, sales and property tax	130,315	-
Accrued excise and cultivation tax liabilities	774,433	-
Income taxes payable	524,592	-
Lease liabilities	4,643,251	5,353,226
Liabilities associated with assets held for sale	$ 9,126,716	$ 8,610,746

11. Accounts payable, Accrued liabilities, payroll and loyalty rewards program, Accrued local, sales and property taxes and Accrued excise and cultivation liabilities (collectively, "accounts payable and accrued liabilities")

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchases incurred in the normal course of business, a note with the City of Greenfield related to prior year property tax obligations and various payment plans with the California Department of Tax and Fee Administration ("CDTFA") related to excise and cultivation taxes.

(Expressed in United States Dollars, except share amounts)

11. Accounts payable, Accrued liabilities, payroll and loyalty rewards program, Accrued local, sales and property taxes and Accrued excise and cultivation liabilities (collectively, "accounts payable and accrued liabilities") (continued)

The Company's accounts payable and accrued liabilities consist of the following as at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Accounts payable	$ 25,496,388	$ 24,340,272
Accrued local, sales and property taxes	2,542,922	4,771,732
Accrued liabilities	16,250,309	11,369,314
Accrued payroll	2,383,470	2,469,326
Accrued loyalty rewards program	720,348	1,098,673
Accrued excise and cultivation tax liabilities - current	21,662,430	17,884,700
Accrued excise and cultivation tax liabilities, net of current portion	-	3,024,000
Total accounts payable and accrued liabilities	$ 69,055,867	$ 64,958,017

As at June 30, 2024, the Company had $21,662,430 accrued for excise and cultivation tax liabilities, of which approximately $15,000,000 related to penalties. The Company will apply with the CDTFA for relief of related penalties when the balance of principal and interest is paid in full.

In July 2022, the Company entered into a term sheet with the City of Greenfield (the "City of Greenfield Note") for $2,500,000 related to prior year property tax obligations. The City of Greenfield applied credits for tax amounts already paid amounting to $388,182 and the Company paid $260,000 in July 2022 upon executing the term sheet. The remaining tax amount of $2,000,000 is payable over 36 equal monthly installments beginning on July 1, 2022. The first 12 monthly payments on the outstanding balance are interest free after which time, the balance will bear interest at a rate of 3% per annum. As at June 30, 2024 and December 31, 2023, the City of Greenfield Note amounted to $619,999 and $923,102, respectively.

12. Notes payable

The notes payable consists of the following as at June 30, 2024:

	Total outstanding
Carryover Notes	$ 30,045,565
Senior Secured Debt	15,000,000
ACS Agreements	146,918
Seaside Note	240,000
Urbn Leaf - UL Visalia LLC	247,943
SBC Private loan	100,000
Vehicle financings	14,629
Total notes payable	$ 45,795,055

The loan fees associated with obtaining the notes payable are recorded as a reduction to the carrying amount and are amortized as interest expense over the life of the note. As at June 30, 2024, there were no unamortized deferred financing costs related to the above notes payable.

12. Notes payable (continued)

Carryover Notes

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

In connection with the Loudpack Acquisition, the Company assumed the Senior Carryover Notes and the Junior Carryover Notes (collectively, the "Carryover Notes"). The Carryover Notes were a result of the amended and restated master debenture supplement agreement (the "Supplement Agreement") dated April 4, 2022 between Loudpack and Acquiom Agency Services, LLC as Collateral Agent and Administrative Agent. The Supplement Agreement amended and restated the original agreement for the remaining existing debentures leaving a remaining principal amount of $17,000,000 for the Senior Carryover Notes and $8,000,000 for the Junior Carryover Notes. The Carryover Notes bear interest at 9%. Interest and principal owed under the Carryover Notes are due on April 4, 2025.

Senior Secured Debt

In December 2020, Urbn Leaf received a loan ("Senior Secured Debt") in the amount of $5,400,000. The Senior Secured Debt originally matured on December 21, 2022, at which time all outstanding principal plus an additional fee of $2,079,000 was due. Monthly payments were interest only with a variable interest rate of the higher of 12.5% or the prime rate plus 9%.

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

On December 21, 2022, the Company entered into the first omnibus amendment of the loan agreement to extend the maturity date of the Senior Secured Debt to January 20, 2023. On January 20, 2023, the Company entered into the second omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to February 28, 2023.

On February 9, 2023, the lenders assigned a portion of the Senior Secured Debt to Pelorus Fund REIT, LLC ("Pelorus") pursuant to the terms of a loan purchase agreement.

On February 28, 2023, the Company entered into the third omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to April 20, 2023.

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

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

On June 5, 2023, the Company entered into the sixth omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to June 19, 2023.

On June 19, 2023, the Company entered into the seventh omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to July 3, 2023.

On July 3, 2023, the Company entered into the eighth omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to July 17, 2023.

12. Notes payable (continued)

Senior Secured Debt (continued)

On July 17, 2023, the Company entered into the ninth omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to July 31, 2023.

On July 31, 2023, the Company entered into the tenth omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to February 10, 2027 and increase the amount of the Senior Secured Debt, providing an incremental amount of approximately $7,521,000, bringing the total principal amount of the Senior Secured Debt to $15,000,000. The Senior Secured Debt bears interest at a rate of one month Secured Overnight Financing Rate ("SOFR"), plus 12.5%, with a SOFR floor of 4.5%.

The Senior Secured Debt is subject to certain debt service ratio requirements, interest reserves, cross-corporate guarantees and defaults, subordination agreements and intercreditor agreements, along with a general corporate guaranty from the Company.

As consideration for entering into the tenth omnibus amendment, the Company granted 136,258,279 common share purchase warrants to Pelorus, amounting to 40% of the Senior Secured Debt (Note 13).

The Company is actively engaged in discussions with its lenders in an effort to improve the financial position and capital structure of the Company. As part of the discussions, beginning February 2024, the Company made partial interest payments on the monthly interest balances due.

ACS Agreements

On November 1, 2019 and February 27, 2022, Loudpack entered into certain secured promissory notes (collectively, the "ACS Agreements"). The November 1, 2019 note was in the amount of $1,100,065, payable over 60 monthly installments of $24,749 beginning on or before December 1, 2019 until the principal and interest have been paid in full. Any unpaid principal and interest are due and payable on December 1, 2024. The February 27, 2022 note was in the amount of $276,650, payable over 60 monthly installments of $6,213 beginning on or before March 1, 2020 until the principal and interest have been paid in full. Any unpaid principal and interest are due and payable on March 1, 2025. The ACS Agreements were assumed by the Company in connection with the Loudpack Acquisition, which closed on April 4, 2022. The ACS Agreements bear interest at a rate of 12.5%.

Seaside Note

On May 18, 2022, the Company entered into an agreement with the Company's former partner (the "Seaside Agreement") to acquire a further 50% ownership interest in its Seaside, California retail dispensary (the "Seaside 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 Dispensary. As a result, the total cost of the additional interest was $440,000, with $100,000 to be paid upfront (the "First Installment") and the balance payable over seven years, with $50,000 being paid on the first and sixth anniversaries of the First Installment and $40,000 being paid on the seventh anniversary of the First Installment.

On August 26, 2023, the Company elected not to renew the cannabis license and closed operations of the Seaside Dispensary.

Urbn Leaf - UL Visalia LLC

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

12. Notes payable (continued)

SBC Private loan

In May 2017, SBC Management LLC ("SBC") borrowed $100,000 from an individual at an interest rate of 12% per annum, pursuant to the terms of an unsecured loan (the "Second SBC Loan"). Pursuant to the terms of the Second SBC Loan, Urbn Leaf was required to make interest payments of $1,000 per month until May 9, 2022, at which time the principal balance owed under the Second SBC Loan would become due. The Second SBC Loan was assumed by the Company in connection with the Urbn Leaf Acquisition, which closed on March 1, 2022. On May 19, 2022, the Company entered into a third amendment to the promissory note extending the maturity date and principal repayment to May 9, 2023. On May 25, 2023, the Company entered into a fourth amendment to the promissory note extending the maturity date and principal repayment to May 9, 2024. As at June 30, 2024, the Company had not repaid the balance remaining on the Second SBC Loan and had not extended the maturity date.

Vehicle financings

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

13. Term Loan

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

Pursuant to the terms of the Pelorus Loan Agreement, the Term Loan was funded in two tranches, with the first occurring prior to closing of the Urbn Leaf Acquisition and the Loudpack Acquisition, and the second tranche funded to the Company post-closing of the Loudpack Acquisition. The first tranche was funded in three separate loans, with a loan to each of Urbn Leaf, Loudpack and the Company. The Company received approximately $15,500,000, Loudpack received approximately $16,400,000 and Urbn Leaf received approximately $13,500,000 of the aggregate funds under the first tranche. From its share of the proceeds of the Term Loan, the Company repaid the $12,000,000 outstanding under the Facility. On April 8, 2022, the Company received approximately $31,950,000 from the second tranche.

The Term Loan contains an interest rate of 10.25% and requires monthly interest payments until the maturity date. The Company is obligated to make principal payments in the amount of 7.5% of the then outstanding balance on both the 36th and 48th payment dates. The remaining principal of the Term Loan is due on the maturity date of February 10, 2027.

The Term Loan is subject to debt service ratio requirements, interest reserves, certain cross-corporate guarantees and defaults, subordination agreements and intercreditor agreements, along with a general corporate guaranty from the Company and is secured by certain real estate assets, cannabis licenses and other assets of the Company, Urbn Leaf and Loudpack.

On January 31, 2024, the Company entered into the eleventh omnibus agreement of the loan agreement to correct a scrivener's error that erroneously indicated the requirement of a $1,000,000 pre-payment on February 1, 2024.

The loan fees associated with the Term Loan are recorded as a reduction to the carrying amount and are being amortized as interest expense within the unaudited condensed interim consolidated financial statements over the five-year term.

(Expressed in United States Dollars, except share amounts)

13. Term Loan (continued)

As at June 30, 2024, the outstanding balance less unamortized deferred financing costs was $75,649,061. As at June 30, 2024, unamortized deferred financing costs amounted to $1,650,939.

The Company is actively engaged in discussions with its lenders in an effort to improve the financial position and capital structure of the Company. As part of the discussions, beginning February 2024, the Company made partial interest payments on the monthly interest balances due.

14. Derivative Liabilities

The following table provides a reconciliation of the beginning and ending balance of derivative liabilities and the change in fair value of derivative liabilities:

	Pelorus Warrants Liability
Balance as at December 31, 2023	$ 4,215,509
Change in fair value of derivative liabilities	(190,812)
Balance as at June 30, 2024	$ 4,024,697

Private Placement Offering Warrants

On February 18, 2021, the Company issued warrants to purchase SVS ("SVS Warrants") and warrants to purchase MVS ("MVS Warrants") (collectively, the "Private Placement Offering Warrants"), in connection with an upsized brokered private placement of units (the "Offering"). The Private Placement Offering Warrants are classified as a liability based on the fixed-for-fixed criterion under IAS 32 - *Financial Instruments: Presentation*. As a result of the Mandatory Conversion (as defined below) and Reclassification (as defined below), the MVS Warrants are now exercisable to acquire Common Shares using the corresponding amount of Common Shares using a ratio of 100 Common Shares per MVS. As a result of the Reclassification, the SVS Warrants are now exercisable to acquire Common Shares using the corresponding amount of Common Shares.

On March 31, 2022, the Company completed the mandatory conversion of all its issued and outstanding multiple voting share ("MVS") into subordinate voting shares ("SVS") (the "Mandatory Conversion"). Pursuant to the Mandatory Conversion, each holder of MVS received 100 SVS for each MVS held. In addition, each holder of MVS Warrants became entitled to acquire 100 SVS for each MVS underlying its MVS Warrants, upon exercise of such MVS Warrant. Effective July 25, 2022, the Company completed the reclassification (the "Reclassification") of all its issued and outstanding SVS to common shares ("Common Shares') on a one for one basis.

The Company used the Monte Carlo Model to estimate the fair value of the derivative liabilities at issuance and at each reporting date. The Monte Carlo Model uses certain Level 2 inputs in its valuation model. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices from observable market data) from observable market data. The key Level 2 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the Company's Common Shares, (ii) the risk-free interest rate, and (iii) the expected life of the instruments.

The risk-free interest rate is based on data from the Federal Reserve Statistical Release and is extrapolated for interim periods. The expected lives are based on the expected lives of the instrument. Volatility was calculated by using the stock price returns from comparable public companies as there was insufficient trading history in the Company's shares.

The Private Placement Offering Warrants had a fair value of nil as at December 31, 2023. The Private Placement Offering Warrants were not exercised and expired during the six months ended June 30, 2024.

(Expressed in United States Dollars, except share amounts)

14. Derivative Liabilities (continued)

Pelorus Warrants

As discussed previously in Note 13, in conjunction with an Amendment, the Company granted 136,258,279 common share purchase warrants to Pelorus (the "Pelorus Warrants"), amounting to 40% of the Senior Secured Debt. The Pelorus Warrants are exercisable for a period of three years, with an exercise price that is adjusted based on a weighted-average dilution basis. Pelorus is prohibited from exercising the Pelorus Warrants if, upon exercise, Pelorus would beneficially own greater than 9.99% of the outstanding Common Shares of the Company. The Pelorus Warrants cannot be transferred to another party without the consent of the Company, unless the transfer is to an affiliate of Pelorus, or the Company is found to be in default of the Senior Secured Debt.

The Company holds an option to acquire the Pelorus Warrants (the "Call Option") at a 30% premium to the then current aggregate exercise price for all of the underlying Common Shares. The Company is required to provide Pelorus with at least 25 days' prior written notice of any prepayment of the Senior Secured Debt. Such prepayment notice shall include notice to Pelorus of whether the Company will elect or not elect to exercise the Call Option. Absent a prepayment in full of the Senior Secured Debt, the Company is required to provide Pelorus with written notice of whether it will elect or not elect to exercise the Call Option at least 25 days prior to the maturity date of the Senior Secured Debt.

The Company also granted Pelorus the option to sell (the "Put Option"), so long as the Pelorus Warrants have not been exercised, the Pelorus Warrants to the Company at a 30% discount to the then exercise price. Pelorus may exercise the Put Option by providing written notice to the Company at least 15 days prior to the prepayment or maturity date of the Senior Secured Debt.

If Pelorus fails to exercise the Put Option during such time period, the Put Option will be deemed void ab initio.

The Company used the Black-Scholes-Merton model to estimate the fair value of the derivative liabilities at issuance and at each reporting date. The Black-Scholes-Merton model uses certain Level 3 inputs in its valuation model. Level 3 inputs are unobservable inputs (i.e., a reporting entity's or other entity's own data). The key Level 3 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the Company's Common Shares, (ii) the risk-free interest rate, and (iii) the expected life of the instruments. The risk-free interest rate is based on data from the Federal Reserve Statistical Release and is extrapolated for interim periods. The expected lives are based on the expected lives of the instruments. Volatility was calculated by using the stock price returns from comparable public companies as there was insufficient trading history in the Company's Common Shares.

The following assumptions were used to value the Private Placement Offering Warrants as at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Risk-free interest rate	3.47%	3.10%
Exercise price - CAD	C$0.05	C$0.05
Call price - CAD	C$0.065	C$0.065
Put price - CAD	C$0.035	C$0.035
Share price - CAD	C$0.05	C$0.03
Expected volatility	127%	126.13%
Expected remaining life	4.08 years	5.00 years
Fair value	$4,024,697	$4,215,509

15. Provisions

IRC §280E

Certain subsidiaries of the Company operate in the cannabis industry and are subject to IRC §280E, which prohibits businesses engaged in the trafficking of controlled substances (including cannabis as specified in Schedule I of the Controlled Substances Act) from deducting ordinary and necessary business expenses. This results in permanent tax differences resulting from normal business expenses which are deemed non-allowable under IRC §280E. Many of the central issues relating to the interpretation of IRC §280E remain unsettled, and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E). IFRIC 23 provides guidance that adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the positions taken by the IRS and the findings of the U.S. Tax Court, the Company has determined that a reserve for an uncertain tax position should be recorded for all years subject to statutory review.

The Company engaged external counsel in an attempt to successfully negotiate the settlement and subsequent payment of its potential liabilities under IRC §280E. On July 28, 2022, the Company entered into the IRS Agreement for PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012, described below, and the year ended December 31, 2020.

The Company does not expect any liabilities or payments resulting from the fiscal year 2016 case or SJW cases, as described below, to be resolved within 12 months of the issuance of these unaudited condensed interim consolidated financial statements. The Company has recorded an uncertain tax position based on the unknown outcome of the settlement discussions.

As at June 30, 2024 and December 31, 2023, the reserve totaled $20,913,973 and $20,213,224, respectively, a sum which includes the IRS Agreement and the separate tax proceedings described below.

PMACC

PMACC was involved in two separate tax proceedings. The first, *PMACC v. Commissioner*, was an appeal to the United States Court of Appeals for the Ninth Circuit of an adverse U.S. Tax Court decision that was issued on November 29, 2018. In that decision, the U.S. Tax Court disallowed PMACC's allocation of certain expenses to cost of goods sold, holding that they were instead deductions barred by IRC §280E. At issue were PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012. The U.S. Tax Court held that the expenses were ordinary and substantiated business expenses but, because PMACC's business consists of trafficking in a Schedule I controlled substance, the expenses must be disallowed. On October 21, 2019, after a review process under Rule 155, the U.S. Tax Court determined that PMACC's total liability was $11,013,237 plus accrued interest. In its ruling, the U.S. Tax Court rejected the assertion of penalties by the IRS, finding that the unsettled state of the law and the fact that PMACC acted reasonably and in good faith, meant that penalties under IRC §6661(a) would be inappropriate. Accordingly, management had not included penalties in the estimated provision. In December 2019, PMACC appealed the U.S. Tax Court decision to the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit"), which heard oral arguments in the case on February 9, 2021 and affirmed the U.S. Tax Court decision on April 22, 2021.

Through the IRS Agreement, the Company is resolving the tax proceeding described above and the uncertain position for the year ended December 31, 2021, through the payment of approximately $5,800,000 to be made through $50,000 per month payments over an expected period of 116 months, beginning in August 2022. The monthly payment amount is subject to IRS review every two years. With each review, the payments may adjust up or down depending on PMACC's ability to pay at that time. The Company does not anticipate that these biennial reviews will result in a material increase to the payment plan pursuant to the IRS Agreement. In December 2022, the Company received a notice of default related to an underpayment of federal taxes for PMACC related to fiscal year 2021. As at June 30, 2024, the Company has accrued for all outstanding amounts and continues to make the installment payments under the IRS Agreement.

(Expressed in United States Dollars, except share amounts)

15. Provisions (continued)

PMACC (continued)

In a second U.S. Tax Court proceeding related to deductions barred by IRC §280E, the IRS issued a notice of deficiency disallowing all deductions taken in their entirety and asserting that PMACC owed $16,035,218 in additional taxes and penalties for fiscal 2016. The Company filed its initial petition in this case to the U.S. Tax Court on February 13, 2020. The IRS proposed a deficiency in tax of $13,362,682. The U.S. Tax Court had stayed active litigation in this matter pending the Ninth Circuit's rendering a decision referenced above. With the adverse decision in the Ninth Circuit in April 2021, the stay is no longer in effect. External counsel for PMACC is in discussions with the IRS in respect to this matter.

SJW

SJW is involved in two separate tax proceedings. The first involves the 2010, 2011, and 2012 tax years, and in this case, the IRS asserted a tax deficiency of $2,120,215. The second proceeding involves the 2014 and 2015 tax years and in the second case the IRS asserted that SJW owed an additional $2,064,363 in taxes and penalties. Both proceedings involve substantially the same issues as the PMACC cases.

On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to the cases for SJW. The Company appealed the U.S. Tax Court decisions on May 14, 2021. In an effort to resolve the matter as part of a global settlement, the Company has withdrawn its appeal.

Changes in the carrying amount of the provision for the six months ended June 30, 2024 and the year ended December 31, 2023 was as follows:

Balance as at December 31, 2022	$ 21,152,172
Interest accrued	1,971,683
Additions in 2023	2,663,528
Less payments made on IRS Agreement	(600,000)
Reclassification of IRS Agreement to income tax payable	(4,900,000)
Other true up	(74,159)
Balance as at December 31, 2023	20,213,224
Interest accrued	1,000,749
Less payments made	(300,000)
Ending provision as at June 30, 2024	$ 20,913,973

(Expressed in United States Dollars, except share amounts)

16. General and Administrative Expenses

For the three and six months ended June 30, 2024 and 2023, general and administrative expenses consisted of the following:

	For the three months ended		For the six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Advertising and promotion	$ 478,794	$ 234,298	$ 837,006	$ 651,743
Banking and processing fees	103,061	239,818	303,074	496,143
Other general administrative	14,649	53,928	26,100	100,315
Office and general expenses	2,134,595	2,603,444	4,533,866	5,481,660
Salaries and benefits	4,529,368	5,491,066	9,268,106	11,721,676
Sales and marketing	47,643	68,673	90,376	144,443
Taxes and licenses	529,050	545,151	717,191	1,110,331
Third party distribution costs	999,094	912,953	2,146,005	1,850,877
Travel and entertainment	97,307	86,512	162,472	147,625
Total	$ 8,933,561	$ 10,235,843	$ 18,084,196	$ 21,704,813

For comparative purposes, the Company reclassified third party distribution costs to be presented with banking and processing fees to conform with the current period's presentation.

17. Employee Retention Credit ("ERC")

During the six months ended June 30, 2023, the Company received approximately $6,400,000 of ERC funds through the Coronavirus Aid, Relief and Economic Security Act. The ERC was established to provide eligible employers with a credit against certain employment taxes for qualified wages paid to employees who were retained during the COVID-19 pandemic. The ERC program requires the Company to comply with certain conditions, including maintaining certain levels of employment and not reducing wages of certain employees. The Company recorded amounts received as a component of other income (expense) in the accompanying Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

18. Income Taxes

StateHouse is treated as a U.S. corporation for U.S. federal income tax purposes under IRC §7874 and is subject to U.S. federal income tax. However, for Canadian tax purposes, the Company is expected, regardless of any application of IRC §7874, 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 U.S. Notwithstanding the foregoing, it is management's expectation that StateHouse's activities will be conducted in such a manner that income from operations will be not subject to double taxation.

The Company's income tax expense allocated for the three and six months ended June 30, 2024 and 2023 was as follows:

	For the three months ended		For the six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Current tax	$ 4,082,802	$ 5,258,560	$ 11,546,589	$ 8,678,274
Deferred tax	711,830	(4,663,154)	412,388	(4,236,730)
Income tax expense	$ 4,794,632	$ 595,406	$ 11,958,977	$ 4,441,544

(Expressed in United States Dollars, except share amounts)

18. Income Taxes (continued)

The net tax provision differs from that expected by applying the U.S. federal tax rate of 21.0% to net loss before income taxes mainly due to limitations on the deductibility of certain expenses for tax purposes under IRC §280E as well as fair value adjustments for biological assets and derivative liabilities.

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in the net deferred tax assets during the six months ended June 30, 2024 was as follows:

Balance, beginning of period	$ 2,065,637
Recognized in loss	(412,388)
Balance, end of period	$ 1,653,249

19. Share Capital

The following is a reconciliation of the issued and outstanding shares of the Company as at June 30, 2024 and December 31, 2023:

	Common Shares (formerly SVS)
Balance, December 31, 2022	252,488,436
Issuance of new shares	3,463,229
Shares surrendered	(19,778)
Balance, December 31, 2023	255,931,887
Issuance of new shares	488,677
Balance, June 30, 2024	256,420,564

During the three and six months ended June 30, 2024, the Company issued 250,000 and 488,677 Common Shares, respectively, for vested RSUs.

On October 27, 2023, the Company issued 1,170,584 Common Shares pursuant to its purchase of an additional interest in FGW (Note 22).

During the year ended December 31, 2023, the Company issued 2,292,645 Common Shares for vested RSUs.

20. Contributed Surplus

Stock Options

Prior to June 30, 2020, the Company maintained an equity incentive plan (the "Old Plan") whereby certain key employees, officers, directors, consultants and advisors could be granted stock options, restricted share awards ("RSAs"), RSUs, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

(Expressed in United States Dollars, except share amounts)

20. Contributed Surplus (continued)

Stock Options (continued)

The stock options which were awarded under the Old Plan vest on a graded-vesting schedule, generally, over a two-year period and expire 10 years after the grant date. The Company uses a graded vesting schedule to record compensation expense, which results in greater compensation expense earlier in the vesting period after an award is granted. All stock options granted are settled in Common Shares. If an employee terminates employment with the Company prior to awards vesting, the unvested awards are forfeited and the historical compensation expense for unvested options is reversed in the period of termination.

On June 30, 2020, the Company adopted an equity incentive plan (the "Plan") whereby certain key employees, officers, directors, consultants and advisors may be granted stock options, RSAs, RSUs, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

The stock options awarded under the Plan vest in accordance with the terms established by the Board at the time of grant. The Plan was ratified by the Company's shareholders on August 4, 2020.

The RSUs granted under the Plan vest on each of the first, second, third and fourth anniversary of the date of grant. RSUs are forfeited upon a participant's termination of employment or resignation or removal as a Director during the applicable restriction period. The Company uses a graded vesting schedule to record compensation expense, which results in greater compensation expense earlier in the vesting period after RSUs are granted. The stock options which are awarded under the Plan vest on a graded-vesting schedule, generally, over a two-year period and expire 10 years after the grant date. The Company uses a graded vesting schedule to record compensation expense, which results in greater compensation expense earlier in the vesting period after an award is granted. All stock options granted are settled in Common Shares.

On January 17, 2022, the Company adopted an amended and restated equity incentive plan (the "A&R Plan") to amend and restate the Plan in order to increase the maximum number of SVS which may be allocated for issuance pursuant to Incentive Stock Options (as defined in the A&R Plan) to up to 23,355,026 SVS or such lesser amount as determined by the Board. The A&R Plan was ratified by the Company's shareholders on February 22, 2022.

On March 31, 2022, the Company completed the Mandatory Conversion of all of its issued and outstanding MVS into SVS. Pursuant to the Mandatory Conversion, each holder of MVS received 100 SVS for each MVS held.

On July 25, 2022, the Company completed the Reclassification of all of its issued and outstanding SVS to Common Shares on a one for one basis.

The following table summarizes the stock option activities for the six months ended June 30, 2024 and the year ended December 31, 2023:

	Number of options outstanding	Weighted average exercise price $
Balance, December 31, 2022	21,558,975	0.61
Options expired/forfeited/cancelled	(5,344,733)	0.46
Options granted	5,400,000	0.04
Balance, December 31, 2023	21,614,242	0.60
Options expired/forfeited/cancelled	(1,850,000)	0.48
Balance, June 30, 2024	19,764,242	0.61

(Expressed in United States Dollars, except share amounts)

20. Contributed Surplus (continued)

Stock Options (continued)

During the three months ended June 30, 2024, the Company recorded aggregate share-based compensation of $(13,066) due to forfeiture reversals. During the six months ended June 30, 2024, the Company recorded aggregate share-based compensation of $333,058 for all stock options vesting and vested during the periods.

During the three and six months ended June 30, 2023, the Company recorded aggregate share-based compensation of $453,891 and $874,631, respectively, for all stock options vesting and vested during the periods.

There were no exercises of options during the three and six months ended June 30, 2024 and 2023.

On July 17, 2023, the Company granted options to purchase up to an aggregate 800,000 Common Shares to certain members of management and employees. Each option is exercisable to acquire one Common Share at an exercise price of C$0.50 per Common Share for a period of five years following the date of grant.

On September 28, 2023, the Company granted options to purchase up to an aggregate 4,600,000 Common Shares to certain members of management and employees. Each option is exercisable to acquire one Common Share at an exercise price of C$0.065 per Common Share for a period of five years following the date of grant.

As at June 30, 2024, the options outstanding and exercisable for Common Shares and with the corresponding exercise price and weighted average remaining life was as follows:

Date of grant	Expiry date	Number of options outstanding	Number of options exercisable	Exercise price (USD)	Weighted average remaining life
September 1, 2020	September 1, 2025	573,611	573,611	$ 0.700	1.20
December 23, 2020	December 23, 2025	765,000	580,000	$ 1.360	1.50
August 1, 2016	August 1, 2026	32,631	32,631	$ 0.050	2.10
March 1, 2022	March 1, 2027	5,758,797	1,439,699	$ 0.520	2.70
April 4, 2022	April 4, 2027	4,591,203	1,447,801	$ 0.560	2.80
April 29, 2022	April 29, 2027	1,350,000	337,500	$ 0.560	2.80
November 24, 2022	November 24, 2027	800,000	200,000	$ 0.120	3.40
April 25, 2018	April 25, 2028	440,000	440,000	$ 4.150	3.80
May 15, 2018	May 15, 2028	43,000	43,000	$ 0.620	3.90
June 25, 2018	June 25, 2028	10,000	10,000	$ 4.150	4.00
July 17, 2023	July 17, 2028	800,000	-	$ 0.040	4.00
September 28, 2023	September 28, 2028	4,600,000	-	$ 0.050	4.20
Total		19,764,242	5,104,242		3.10

The weighted average remaining contractual life of outstanding options as at June 30, 2024 was 3.10 years.

Restricted share units ("RSUs")

During the three and six months ended June 30, 2024, the Company recorded share-based compensation expense of $196,461 and $388,275, respectively, as a result of vested RSUs. During the three and six months ended June 30, 2023, the Company recorded share-based compensation expense of $140,954 and $374,655, respectively, as a result of vested RSUs.

As at June 30, 2024, the Company had an aggregate of 1,687,500 RSUs outstanding.

(Expressed in United States Dollars, except share amounts)

21. Reserve for Warrants

The activity for warrants outstanding for the six months ended June 30, 2024 and the year ended December 31, 2023 is summarized as follows:

	Common Shares (formerly Subordinate Voting Shares)		
	Number of warrants outstanding	**Weighted average exercise price CAD $**	**Weighted average exercise price USD $**
Balance, December 31, 2022	16,175,900	3.62	2.74
Issuance of Pelorus Warrants	136,258,279	0.05	0.04
Bank Warrants expired	(410,000)	3.69	2.69
Balance, December 31, 2023	152,024,179	0.42	0.31
SVS Warrants and MVS Warrants expired	(13,765,900)	3.69	2.69
Balance, June 30, 2024	138,258,279	0.09	0.07

Warrants

On February 18, 2021, the Company issued 5,806,700 SVS Warrants and 79,592 MVS Warrants in connection with the Offering (Note 19). Each SVS Warrant entitles the holder thereof to purchase one SVS of the Company at an exercise price of C$3.69 per share until February 18, 2024. Each MVS Warrant entitles the holder thereof to purchase one MVS of the Company at an exercise price of C$369 per share until February 18, 2024. Following the Mandatory Conversion, all MVS Warrants previously exercisable into MVS, were exercisable into SVS. In particular, each holder of MVS Warrants was then entitled to receive, upon exercise of the MVS Warrants, one hundred SVS per MVS Warrant at an exercise price of $369 per MVS Warrant. As a result of the Mandatory Conversion and Reclassification the MVS Warrants are now exercisable to acquire Common Shares on economically equivalent terms using a ratio of one Common Share per SVS.

The SVS Warrants and MVS Warrants were being accounted for as a derivative liability (Note 14). The SVS Warrants and MVS Warrants were not exercised and expired in February 2024.

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

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

On July 17, 2023, as consideration for entering into an Amendment, the Company granted 136,258,279 warrants to purchase Common Shares (the "Pelorus Warrants"), amounting to 40% of the Senior Secured Debt. The Pelorus Warrants are exercisable for a period of three years, with an exercise price that is adjusted based on a weighted-average dilution basis. Pelorus is prohibited from exercising the warrants, if, upon exercise, Pelorus would beneficially own greater than 9.99% of the outstanding Common Shares of the Company.

(Expressed in United States Dollars, except share amounts)

21. Reserve for Warrants (continued)

The following table summarizes information of warrants outstanding as at June 30, 2024:

Date of expiry	Number of warrants outstanding	Weighted Average Exercise price (CAD)	Weighted Average Exercise price (USD)	Weighted average remaining life
November 29, 2026	2,000,000	3.12	2.28	2.42
July 31, 2028	136,258,279	0.05	0.04	4.09
Total	138,258,279	0.09	0.07	4.06

22. Non-controlling interests

On February 15, 2022, the Company entered into a definitive securities purchase agreement with FGW (the "Subsequent FGW Agreement"), pursuant to which the Company agreed to acquire a further 29.9% interest in FGW (the "Subsequent Shares"), subject to certain material closing conditions, including approvals from regulatory authorities and converting a convertible note issued to the Company in connection with the initial ownership interest acquisition (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 would increase the Company's interest in FGW to 80%. On October 27, 2023, the Company exercised its call option to acquire an additional 29.9% interest in FGW. Additionally, the Company converted the FGW Note into an additional ownership of 29.1%. The issuance and conversion increased 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.

On March 1, 2022, the Company acquired several non-controlling interests through the Urbn Leaf Acquisition.

As at June 30, 2024, the Company held the following ownership interests:

FGW Haight Inc.	80.00%
UL Chula Two LLC	51.00%
JLM Investment Group, LLC	66.66%
Banana LLC	75.00%

The change in non-controlling interests for the six months ended June 30, 2024 was as follows:

Balance, December 31, 2023	$ 1,189,815
Share of loss for the period	(19,584)
Balance, June 30, 2024	$ 1,170,231

23. Net income (loss) per share

Basic loss per share is calculated by dividing net profit or loss attributable to ordinary equity holders of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. For purposes of calculating loss per share, the dilutive effect of outstanding MVS is converted into 100 SVS on a weighted-average basis for the number of days the MVS are outstanding.

(Expressed in United States Dollars, except share amounts)

23. Net income (loss) per share (continued)

The following is a reconciliation for the calculation of basic and diluted loss per share for the three and six months ended June 30, 2024 and 2023:

	For the three months ended		For the six months ended	
	June 30, 2024	**June 30, 2023**	**June 30, 2024**	**June 30, 2023**
Net income (loss) attributable to the Company	$ 208,708	$ (2,126,647)	$ (17,636,108)	$ (12,730,058)
Weighted average number of shares outstanding	255,429,080	252,909,947	255,429,080	252,695,330
Dilutive effect of options outstanding	13,129,219	-	-	-
Dilutive effect of options expired	16,283,934	-	-	-
Dilutive effect of options exercised	8,003,656	-	-	-
Diluted weighted average number of shares outstanding	292,845,889	252,909,947	255,429,080	252,695,330
Basic earnings (loss) per share	$ -	$ (0.01)	$ (0.07)	$ (0.05)
Dilutive earnings (loss) per share	$ -	$ (0.01)	$ (0.07)	$ (0.05)

24. Related Party Transactions and Key Management and Director Compensation

(a) Key Management and Director Compensation

Key management includes directors and officers of the Company. Total compensation (comprised of salaries, benefits, one-time bonuses and share-based compensation) awarded to key management for the three and six months ended June 30, 2024 and 2023 was as follows:

	For the three months ended		For the six months ended	
	June 30, 2024	**June 30, 2023**	**June 30, 2024**	**June 30, 2023**
Short-term employee benefits, including salaries and director fees	$ 305,579	$ 536,983	$ 777,346	$ 1,028,980
Share-based compensation - Directors and Executives	409,517	420,827	923,818	1,279,498
Total	$ 715,096	$ 957,810	$ 1,701,164	$ 2,308,478

As at June 30, 2024 and December 31, 2023, $202,540 was payable to Will Senn ("Mr. Senn"), Chief Corporate Development Officer, for deferred compensation.

As at June 30, 2024 and December 31, 2023, $16,250 and $164,567, respectively, was payable to the directors for quarterly director fees.

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

(b) Related Parties

The Company did not have any purchases of goods or services with related parties during the three and six months ended June 30, 2024 and 2023.

24. Related Party Transactions and Key Management and Director Compensation (continued)

(c) Other Related Parties

On July 19, 2021, the Company entered into two consulting agreements with Entourage Effect Capital ("Entourage") in exchange for cash compensation. Pursuant to the terms of the first consulting agreement with Entourage, Matt Hawkins ("Mr. Hawkins") agreed to provide management services as Interim Chief Executive Officer ("CEO") of the Company. Pursuant to the terms of the second consulting agreement with Entourage, Entourage agreed to provide business and executive management services related to the Company's retail, wholesale and manufacturing operations. In connection with the Urbn Leaf Acquisition, the Company announced the resignation of Mr. Hawkins as Interim CEO and the appointment of Edward Schmults as CEO. As at June 30, 2024 and December 31, 2023, a total of $45,000 was payable to Entourage for business and executive management services under the second consulting agreement.

An immediate family member of Mr. Senn was employed by the Company. As at June 30, 2024 and December 31, 2023, a total of $64,087 was payable for deferred compensation.

ULBP Inc. leases a building in La Mesa, California in which an officer of the Company owns a 50% interest in the entity that owns the building. During the three and six months ended June 30, 2024, the Company paid $172,923 and $345,846, respectively, for rent expense. During the three and six months ended June 30, 2023, the Company paid $6,365 for rent expense.

As at June 30, 2024 and December 31, 2023, a total of $44,235 was owed to 8939 La Mesa Partners, a related party, and is included in due to related parties in the Unaudited Condensed Interim Statements of Financial Position.

As at June 30, 2024 and December 31, 2023, a total of $428,806 was owed to Hillside Partners, a related party, and is included in due to related parties in the Unaudited Condensed Interim Statements of Financial Position.

As at June 30, 2024 and December 31, 2023, a total of $108,526 was owed to Paragon Partners, a related party, and is included in due to related parties in the Unaudited Condensed Interim Statements of Financial Position.

On September 19, 2023, the Company entered into an agreement with The Scott Company, LLC ("TSC") for professional services in exchange for $15,000 and 367,000 RSU's on a monthly basis. During the year ended December 31, 2023, the Company granted 1,468,000 RSU's. All RSU's fully vest on the grant date. On January 9, 2024, the Company extended the consulting agreement with TSC through March 31, 2024, and changed the compensation arrangement so that an additional $15,000 cash would be paid each month in lieu of the RSU's. On March 27, 2024, the Company extended the consulting agreement with TSC through July 31, 2024. On June 27, 2024, the Company extended the consulting agreement with TSC through November 30, 2024. TSC is owned by a related party, James Scott, who is a member of the Board.

25. Commitments and Contingencies

From time to time, the Company may become defendants in legal actions and the Company intends to take appropriate action with respect to any such legal actions, including defending itself against such legal claims as necessary. As the Company continues to operate, it may become party to additional litigation matters and claims. The outcomes of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect the Company's financial position, results of operations or cash flows.

25. Commitments and Contingencies (continued)

IRC §280E

Many of the central issues relating to the interpretation of IRC §280E remain unsettled and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E) that have never been addressed by any Treasury regulation or court case. IFRIC 23 provides guidance that adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

The Company evaluated its uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the IRS and the U.S. Tax Court, determined that a reserve for an uncertain tax position should be recorded.

On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to SJW to disallow all of SJW's deductions pursuant to IRC §280E for all the years at issue. On May 14, 2021, the Company appealed the U.S. Tax Court ruling. In an effort to resolve the matter as part of a global settlement, the Company withdrew its appeal.

Michael Adams, Andrew Coleman, and Other Individuals Similarly Situated v. Patients Mutual Assistance Collective Corp dba Harborside Health et al.

On or about January 10, 2020, PMACC was served with a complaint filed by plaintiff and putative class representative Mr. Michael Adams ("Mr. Adams"). On March 13, 2024, the parties executed a settlement agreement, pursuant to which the Company agreed to make settlement payments over time. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

Lilu Financials LLC v. UL Holdings Inc., UL Management LLC and Will Senn

On September 24, 2021, Urbn Leaf received a summons and complaint alleging violations of the contract between the parties, under which Lilu Financials, LLC and its principal, Roopal Patel, performed CFO services for the Company. On March 1, 2024, the parties executed a settlement agreement, pursuant to which the Company agreed to make settlement payments over time. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

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

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

Tony Banks, individually and on behalf of the aggrieved employees pursuant to the Private Attorneys General Act v. Sublime Machining, Inc. dba Sublime Canna

On November 3, 2021, the Company received a summons and complaint filed in the Alameda Superior Court on behalf of Sublime Machining, Inc. On March 18, 2024, the parties executed a settlement agreement, pursuant to which the Company agreed to make settlement payments over time. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

25. Commitments and Contingencies (continued)

Bubba Likes Tortillas, LLC v. New Origins Management, Inc., San Diego Alternative Treatment Center Cooperative d.b.a. Southwest Patient Group, Wayne Alexander Scherer, Rezwan H. Kwan

In 2021, Urbn Leaf received a summons and complaint filed by Bubba Likes Tortillas, LLC alleging violations of the contract between the parties. Southwest Patient Group changed its name to Uprooted Inc. and was subsequently acquired by Urbn Leaf. These claims occurred prior to Urbn Leaf acquiring Uprooted Inc. It is the intent of the Company to prevail or settle this matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Robby Castillo Ordonez and Jessica Carolina Hernandez Rodriguez de Castillo v. Holistic Healing Alternative, Inc., LP-KP IP Holdings, LLC and Greenfield Organix

On July 25, 2022, the Company was served with a summons and complaint alleging a breach of statutory obligation, negligent exercise of retained control, premises liability, civil harassment, Bane civil rights act and loss of consortium. The Company denies any direct or indirect involvement with the plaintiff's claims, or any potential liability in this matter. This matter has been referred to the Company's external counsel and insurance carrier. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Jeffery Rivera and Natasha Heacock on behalf of the State of California as Private Attorney Generals v. ULBP Inc. et al

On April 19, 2022, former employees of Urbn Leaf filed a Representative Action Claim in Superior Court, County of Santa Clara, against ULBP Inc. ("ULBP"), a subsidiary of Urbn Leaf and other parties. The complaint alleges a violation of the Labor Code Private Attorneys General Act ("PAGA") by ULBP and the former employees are seeking an award of attorneys' fees and costs. It is the intent of the Company to prevail or settle this matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Joshua Bubeck v. StateHouse Holdings Inc., Harborside Inc., UL Management LLC, UL Holdings Inc., Edward Schmults, and Will Senn

On August 25, 2022, the Company received a complaint on behalf of a former executive and Urbn Leaf co-founder, Joshua Bubeck. The complaint alleges various wage and hour claims, as well as breach of contract. This matter has been referred to the Company's insurance carrier and counsel. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Norguard Insurance Company v. Calgen Trading, Inc. dba Urbn Leaf and 909 West Vista Way LLC

On September 15, 2022, the Company received a complaint alleging that one of the Company's contracted security guards was injured on the job in May 2020. The plaintiff, who is the worker's compensation insurance carrier for the contracted security company, is seeking compensatory damages in connection with this complaint. This matter has been referred to the Company's insurance carrier. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Maria Adan on behalf of herself and all other similarly situated v. LPF RE Manager, LLC

In October 2020, LPF RE Manager, LLC received a summons alleging a wage and hour claim related to Loudpack's security screening procedures. The parties executed a class action settlement agreement on a similar claim for a different class period and on June 29, 2022, the trial court granted preliminary approval of the class and PAGA settlement. It is the intent of the Company to prevail or settle this matter, however, it is not possible to determine or predict the scope of any resolution at this time.

25. Commitments and Contingencies (continued)

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

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

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

On or about August 26, 2022, the Company received a demand letter from Fusion LLF, LLC regarding a receivable for entities Greenfield Organix and Humboldt Partner Group, Inc. The letter demands immediate payment for a past due balance. On January 3, 2023, the Company received a summons and complaint from Fusion LLF, LLC alleging breach of contract, account stated and right to attach order and writ of attachment regarding an unpaid balance. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Kate Pellacani v. ULBP Inc.

On April 12, 2023, ULBP Inc. received a complaint on behalf of former employee Kate Pellacani. The complaint alleges Ms. Pellacani was misclassified as an exempt employee resulting in unpaid wages and penalties. Subsequent to June 30, 2024, the parties executed a settlement agreement, pursuant to which the Company agreed to make settlement payments over time.

Christopher Francy v. UL Holdings Inc and William Senn

On June 23, 2023, the Company received a demand letter from Christopher Francy ("Mr. Francy") (the "Francy Demand Letter"), a former 680 Broadway Master LLC joint venture partner. The Francy Demand Letter alleges that the Company owes payment to Mr. Francy pursuant to the terms of a settlement agreement entered into between the Company and Mr. Francy on March 8, 2022. In addition, on September 8, 2023, the Company received a summons and complaint on behalf of Mr. Francy alleging breach of contract. On January 31, 2024, the parties executed a settlement agreement, pursuant to which the Company agreed to make settlement payments over time. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

Payne's Distribution LLC dba Leef Distribution v. Greenfield Organix

On October 20, 2023, the Company received a summons and complaint from Payne's Distribution LLC dba Leef Distribution. The complaint alleges breach of written contract, reasonable value, open book account and account stated regarding a debt owing. On January 27, 2024, the parties executed a settlement agreement, pursuant to which the Company agreed to make settlement payments over time. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Unaudited Condensed Interim Consolidated Statements of Financial Position.

Cynthia Summers v. UL San Jose LLC

On December 18, 2023, the Company received a complaint alleging successor liability from Cynthia Summers, a former employee of DFWS, Inc., an entity which previously held the retail store location purchased through receivership by UL San Jose LLC during the year ended December 31, 2020. On April 3, 2024, the Company received notice that the matter was dismissed without prejudice.

25. Commitments and Contingencies (continued)

Erica Glenn v. FLRish Inc., Harborside Inc., Steve DeAngelo, One Tribe LLC

On February 21, 2024, the Company received a summons and complaint on behalf of Erica Glenn, a former vendor of Steve DeAngelo, alleging violations of contract between parties. Subsequent to June 30, 2024, the parties executed a settlement agreement, pursuant to which the Company agreed to make a settlement payment.

Global Assets, Liens, and Foreclosures LLC v. ULBP Inc., Uprooted Inc., UL La Mesa LLC, Calgen Trading Inc., UL San Jose LLC, PDLP JV LLC, Uprooted LM LLC, San Leandro Wellness Solutions Inc., 680 Broadway Master LLC, FGW Haight Inc., Accucanna LLC, San Jose Wellness, Banana LLC, and Patients Mutual Assistance Collective Corporation

On March 26, 2024, the Company received a demand letter and notice of debt assignment from Global Assets, Liens, and Foreclosures ("GALF") on behalf of HERBL Inc., alleging a debt that has been assigned to GALF. In addition, on May 28, 2024, the Company received a summons and complaint on behalf of GALF alleging breach of written contract, account stated, open account, and goods sold and delivered. It is the intent of the Company to prevail or settle the matter, however, it is not possible to predict the scope of any resolution at this time.

Kok Hoong Chan v. StateHouse Holdings Inc., FLRish Inc.

On April 26, 2024, the Company received a summons and complaint on behalf of Kok Hoong Chan, a former employee of the Company, alleging whistleblower retaliation and wrongful termination. This matter has been referred to the Company's insurance carrier and counsel. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Goldberg Weprin Finkel Goldstein LLP v. StateHouse Holdings Inc.

On June 3, 2024, the Company received a demand from Goldberg Weprin Finkel Goldstein LLP ("GWFG"), a former legal vendor to LPF JV Corporation, alleging unpaid invoices. Subsequent to June 30, 2024, the Company received a complaint on behalf of GWFG alleging breach of contract, quantum merit, and account stated. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Employment Agreements

Certain of the Company's employees have employment agreements under which the Company is obligated to make severance payments, accelerate vesting of stock options and provide other benefits in the event of the employee's termination, change in role or a change in control as defined in such agreements.

26. Capital Management

The Company's objectives when managing its capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern, meet capital expenditures required for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt or acquire or dispose of assets. With the exception of certain restrictive covenants included in the Carryover Notes, Senior Secured Debt and Term Loan (Note 12 and 13), the Company is not subject to externally imposed capital requirements. The Board does not establish quantitative criteria related to a return on capital for management, but rather relies on the management team's expertise to sustain future development of the business.

(Expressed in United States Dollars, except share amounts)

26. Capital Management (continued)

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions by:

(i) minimizing discretionary disbursements;

(ii) reducing operating expenditures throughout the Company; and

(iii) exploring alternative sources of liquidity.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. Other than as disclosed herein, there have been no material changes to the Company's capital management approach during the three and six months ended June 30, 2024 and 2023.

27. Financial Risk Management

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

(a) Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis.

The Company's liquidity and operating results may be adversely affected if the Company's access to capital markets is hindered, whether as the result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its operating and financing activities.

As at June 30, 2024 and December 31, 2023, the Company had a cash balance of $2,056,714 and $2,429,973, respectively, to settle current liabilities of $186,566,615 and $132,489,464, respectively. The higher amount of current liabilities as at June 30, 2024 is primarily due to debt (Note 12), the provision (Note 15) and the Company's excise and cultivation tax liabilities (Note 11).

In addition to the commitments outlined in Note 9, *Right-of-use Assets and Lease Liabilities*, and Note 25, *Commitments and Contingencies*, the Company has the following contractual obligations as at June 30, 2024:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	> 5 Years	Total
Accounts payable	$ 25,496,388	$ -	$ -	$ -	$ 25,496,388
Accrued liabilities, payroll and loyalty rewards	19,354,127	-	-	-	19,354,127
Accrued local, sales and property taxes	2,542,922	-	-	-	2,542,922
Accrued excise and cultivation tax liabilities	21,662,430	-	-	-	21,662,430
Notes payable	26,680,945	19,114,110	-	-	45,795,055
Term Loan	5,797,500	69,851,561	-	-	75,649,061
IRS Agreement	600,000	1,200,000	1,200,000	1,650,000	4,650,000
	$ 102,134,312	$ 90,165,671	$ 1,200,000	$ 1,650,000	$ 195,149,983

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

27. Financial Risk Management (continued)

(b) Credit Risk

Credit risk is the risk of potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash, accounts receivable and notes receivable, which expose the Company to credit risk should the borrower default upon maturity of the instruments. Cash and restricted cash are primarily held with reputable banks, and at secure facilities controlled by the Company.

Management believes that the credit risk concentration with respect to financial instruments included in cash, accounts receivable and notes receivable is minimal.

(c) Market Risk

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate volatility as the Company's Senior Secured Debt has a variable interest rate of one-month SOFR, plus 12.5%, with a SOFR floor of 4.5% (Note 12). As at June 30, 2024, if market rates would have been 100 basis points higher with all other variances held constant, post-tax profit for the period would have been $75,000 lower as a result of this higher interest expense.

(ii) Foreign Exchange Risk

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

As at June 30, 2024 and December 31, 2023, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time as it deems its foreign currency exposure to be immaterial.

(iii) Equity Price Risk

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

(d) Asset Forfeiture Risk

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

27. Financial Risk Management (continued)

(e) Banking Risk

Notwithstanding that a majority of states in the United States have legalized cannabis for either adult or medical use, and the passage of the SAFE Banking Act by the U.S. House of Representatives, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry.

Given that U.S. federal law provides that the production and possession of cannabis is illegal under the Controlled Substances Act, there is a valid argument that banks cannot accept funds for deposit from businesses involved in the cannabis industry.

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

28. Segmented Information

The Company's operations comprise one reportable segment and one operating segment engaged in the cultivation, branding, manufacturing, wholesale distribution and retail sale of cannabis and cannabis products within the U.S., in addition, the Company has one CGU. All revenues were generated in the United States for the three and six months ended June 30, 2024 and 2023 and all property, plant and equipment is located in the United States.

Revenues for the three and six months ended June 30, 2024 and 2023 were as follows:

	For the three months ended		For the six months ended	
	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
$ in thousands				
Retail, net	$ 13,476	$ 13,002	$ 25,430	$ 27,430
Branded wholesale and manufacturing revenue, net	10,703	11,156	22,196	20,602
Cultivation revenue, net	3,591	1,182	5,550	1,966
Total net revenue	$ 27,770	$ 25,340	$ 53,176	$ 49,998

29. Subsequent Events

The Company has evaluated subsequent events through August 29, 2024.

Entity Dissolution

On July 24, 2024, the Company dissolved LGC LOR DIS 1, LLC.

Director Changes

Effective July 31, 2024, Kevin Albert was appointed as a Director of the Board. Mr. Albert will serve on the Audit Committee and the Special Committee.