STATEHOUSE HOLDINGS INC.

Management's Discussion and Analysis
For the Three and Six Months Ended June 30, 2024
(Expressed in United States Dollars)

August 29, 2024

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of StateHouse Holdings Inc. ("StateHouse" or the "Company") is for the three and six months ended June 30, 2024 ("Q2 2024"). It is supplemental to, and should be read in conjunction with, the unaudited condensed interim consolidated financial statements of StateHouse for the three and six months ended June 30, 2024 (the "Q2 2024 Financial Statements") and the consolidated financial statements of the Company for the year ended December 31, 2023. The Q2 2024 Financial Statements and the financial information contained in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial condition and results of operations of StateHouse for the three and six months ended June 30, 2024 have been included in this MD&A. In preparing this MD&A, management has taken into account information available up to August 29, 2024. Unless otherwise indicated, all figures presented in this MD&A are expressed in United States Dollars ("$" or "USD"). All references to "C$" or "CAD" pertain to Canadian Dollars. Unless the context otherwise requires, references in this MD&A to the "Company", "StateHouse", "we", "us" or "our" refers to StateHouse Holdings Inc. and its subsidiaries.

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

Overview of the Company

StateHouse, through its affiliated entities, is a fully licensed, vertically integrated omni-channel cannabis company, with its business consisting of three primary revenue channels: (i) retail sales, including direct to consumer and delivery, (ii) 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 California's premier vertically integrated cannabis companies.

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

The operational footprint of the Company spans cultivation, extraction, manufacturing, branding, distribution, retail and delivery. The Company's integrated supply chain and omni-channel platform allows for greater product margins due to the creation of cannabis products using Company produced materials from its cultivation and manufacturing operations, which are then sold to other retail dispensaries, delivery services and distributors (collectively, "Retailers") throughout the state of California, as well as directly to consumers through the Company owned or controlled retail and delivery operations.

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

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

Retail Dispensaries

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

- Four owned and operated Harborside-branded retail dispensaries located in Oakland, San Jose, San Leandro and Desert Hot Springs, California. The dispensaries located in San Leandro and Desert Hot Springs were listed as held for sale as at June 30, 2024. The dispensary 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 of California (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 each for a total term 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 interest in PDLP JV, LCC and is awaiting final approval from the City of West Hollywood. The Company anticipates receiving the 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 II LLC ("LGCLORDIS2"), the entity that owned and operated the dispensary located in Eugene, Oregon (the "LGCLORDIS2 Sale"). Refer to Recent Developments for further information.

Cultivation, Wholesale and Distribution

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

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

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

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

Corporate Organization

For details on the basis of consolidation for the Company and its subsidiaries, see Note 2.4, *Summary of Significant Accounting Policies – Basis of Consolidation* in the Q2 2024 Financial Statements.

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 was sold in April 2024. Additionally, the Company has filed to dissolve LGC LOR DIS 1, LLC.

Outlook and Growth Strategy[1]

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

Strategies

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

- Achieve cost savings and optimize efficiencies resulting from previous acquisitions, including improving margins on branded products produced by the Company;
- Assess the Company's capital structure and balance sheet requirements to determine the best approach to reduce liabilities and/or pay them over time to help improve the Company's financial position;
- Negotiate arrangements pertaining to liabilities to minimize their impact on the business including working with creditors to negotiate mutually beneficial solutions;
- Leverage existing Company expertise and infrastructure to grow additional revenue generating services such as the following:
    - Grow white-label revenue through partnerships with other companies, utilizing the Company's manufacturing expertise and facilities;
    - Expand the Company's offering of manufactured products by including specific third-party brands on the Company's sales and distribution platform; and,
    - Increase the Company's cultivation square footage and genetic catalog within the current greenhouses, to increase yields and average sales price for increased bulk sales revenue and improved supply chain.
- Increase revenue from the Company's retail dispensaries by leveraging the cost-effective digital capabilities of the Company's loyalty program to increase customer loyalty and enhance the customer experience;
- Continue rationalization of profitable and unprofitable products, brands, locations, and services;
- Capitalize on demand for the high-quality excess flower and trim produced at the Company's cultivation facilities;
- Expand the Company's branded product portfolio by creating or acquiring new branded products, leveraging its existing customer base and reputation to increase market share; and,
- Explore new licenses, partnerships or acquisitions to add additional shelf space and overall retail growth.

Through a review of StateHouse's existing retail dispensaries, management is exploring the divestiture of non-core assets in connection with the Company's continued efforts to improve its profitability and to focus on maximizing its presence and impact in the California market. The Company has been actively marketing certain rights and interests in its non-core assets, including cannabis licenses in noncore geographies within California. As at June 30, 2024, the following entities were held for sale: Uprooted LM LLC, Accucanna LLC, UL San Jose LLC and San Leandro Wellness Solutions Inc.

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

The Company is targeting completion of other potential divestures that would occur in 2024, however, no definitive timeline is assured. There can be no assurance any transactions will be pursued by the Company due to its intention to divest any non-core assets. The Company has accounted for any potential divestures in accordance with IFRS 5 - *Non-Current Assets Held for Sale and Discontinued Operations*. The Company does not intend to comment further with respect to potential divestures unless and until it determines that additional disclosure is appropriate in accordance with the requirements of applicable securities laws.

Assumptions and Expectations

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

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

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

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

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

Recent Developments

Director Changes

Effective January 15, 2024, the Company announced that J. Roy Pottle resigned from the board of directors of the Company (the "Board").

Effective April 14, 2024, Felicia Snyder was appointed as independent Chair of the Board. Effective April 14, 2024, Matthew K. Hawkins stepped down from the Board.

Interest Payments

The Company has not paid full cash interest payments since February 2024. The Company is currently engaged in negotiating the terms of the Company's debt and ongoing interest obligations.

Sale of LGCLORDIS2, LLC

On April 26, 2024, the Company completed the LGCLORDIS2 Sale 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 $1,857.64 beginning on May 26, 2024 until October 26, 2024 and $246,600 of principal and interest payable in installments of $5,512.49 beginning on November 26, 2024 until November 26, 2028. The note bears interest at 9% per annum.

Failure to File Cease Trade Order

On May 8, 2024, the Ontario Securities Commission issued a failure to file cease trade order ("FFCTO") which prevented trading of Common Shares until after the Company filed its annual audited consolidated financial statements for the year ended December 31, 2023, the related management's discussion and analysis of financial condition and results of operations and the CEO and CFO certificates relating to the audited annual financial statements (collectively, the "Outstanding Annual Filings"). On August 1, 2024, the Company filed the Outstanding Annual Filings, refer to Subsequent Events section for further details.

Results of Operations

Revenue

The Company has the following revenue channels:

• Retail: The Company's retail operations include both adult-use and medical cannabis sales. Direct to consumer sales include in-store retail, curbside pick-up and home delivery. As at June 30, 2024, the Company operated 10 retail dispensaries, of which five have direct-to-consumer delivery hubs. Approximately 48.5% and 47.8% of the Company's revenue for the three and six months ended June 30, 2024, respectively, was derived from the Company's retail operations.

• Branded wholesale and manufacturing: The Company's branded wholesale and manufacturing operations include cannabis processing, extraction, and product manufacturing for its own branded products and for "white label products" for other cannabis companies. Approximately 38.5% and 41.7% of the Company's revenue for the three and six months ended June 30, 2024, respectively, was derived from the Company's branded wholesale and manufacturing operations.

• Cultivation: The Company's cultivation operations include the sale and delivery of cannabis flower and trim to the wholesale market. Approximately 13.0% and 10.5% of the Company's revenue for the three and six months ended June 30, 2024, respectively, was derived from the Company's cultivation operations. The Company believes that a more fully integrated supply chain will result in higher product margins as the Company captures more of the price to consumer as well as lower input and production costs.

For the three and six months ended June 30, 2024 and 2023, revenue was comprised 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
$ 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

Historically, the Company has not experienced significant seasonality in its revenue or other important financial performance metrics. Management expects revenue in the second and third quarters to be generally higher due to increased retail foot traffic throughout the state. The Company benefits from these increases in retail sales and from the additional wholesale demand from third-party retail customers. Additionally, the Company's cultivation is entirely light assisted greenhouses, which benefit from additional sunlight during the second and third quarters of the calendar year resulting in additional yields. Biomass from the Company's cultivation are consumed internally to the greatest extent possible, and any remaining biomass is sold into the bulk wholesale market.

Gross Profit

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

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

For the three and six months ended June 30, 2024 and 2023, gross profit and gross margin by revenue channel were as follows:

	Three months ended June 30,		Six months ended June 30,	
$ in thousands	2024	2023	2024	2023
Retail operations				
Retail revenue, net	$ 13,476	$ 13,002	$ 25,430	$ 27,430
Cost of goods sold	4,471	5,510	9,871	11,380
Gross profit before biological asset adjustments	$ 9,005	$ 7,492	$ 15,559	$ 16,050
Gross margin	*66.8%*	*57.6%*	*61.2%*	*58.5%*
Branded wholesale and manufacturing operations				
Branded wholesale and manufacturing operations, net	$ 10,703	$ 11,156	$ 22,196	$ 20,602
Cost of goods sold	6,903	6,613	12,604	14,616
Gross profit before biological asset adjustments	$ 3,800	$ 4,543	$ 9,592	$ 5,986
Gross margin	*35.5%*	*40.7%*	*43.2%*	*29.1%*
Cultivation operations				
Cultivation operations, net	$ 3,591	$ 1,182	$ 5,550	$ 1,966
Cost of goods sold	2,277	1,390	4,769	1,747
Gross profit (loss) before biological asset adjustments	$ 1,314	$ (208)	$ 781	$ 219
Gross margin	*36.6%*	*-17.6%*	*14.1%*	*11.1%*
Consolidated operations				
Net revenue	$ 27,770	$ 25,340	$ 53,176	$ 49,998
Cost of goods sold	13,651	13,513	27,244	27,743
Gross profit before biological asset adjustments	$ 14,119	$ 11,827	$ 25,932	$ 22,255
Gross margin	*50.8%*	*46.7%*	*48.8%*	*44.5%*

Operating Expenses

Operating expenses primarily include general and administrative expenses (as described below), professional fees, share-based compensation, allowance for expected credit losses, and depreciation and amortization.

For the three and six months ended June 30, 2024 and 2023, operating expenses were comprised 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
$ in thousands				
General and administrative	$ 8,934	$ 10,236	$ 18,084	$ 21,705
Professional fees	2,059	2,103	3,766	4,045
Share-based compensation	183	454	721	1,249
Allowance for expected credit loss	-	(2)	773	792
Depreciation and amortization	332	1,280	1,451	2,554
Total operating expenses	$ 11,508	$ 14,071	$ 24,795	$ 30,345

General and Administrative Expenses ("G&A")

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

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

For the three and six months ended June 30, 2024 and 2023, G&A was comprised of the following:

	For the three months ended				For the six months ended			
	June 30, 2024	% of net revenue	June 30, 2023	% of net revenue	June 30, 2024	% of net revenue	June 30, 2023	% of net revenue
Advertising and promotion	$ 479	2%	$ 234	1%	$ 837	2%	$ 652	1%
Banking and processing fees	103	0%	240	1%	303	1%	496	1%
Other general administrative	15	0%	54	0%	26	0%	100	0%
Office and general expenses	2,135	8%	2,603	10%	4,534	9%	5,482	11%
Salaries and benefits	4,529	16%	5,491	22%	9,268	17%	11,722	23%
Sales and marketing	48	0%	69	0%	90	0%	144	0%
Taxes and licenses	529	2%	545	2%	717	1%	1,110	2%
Third party distribution costs	999	4%	913	4%	2,146	4%	1,851	4%
Travel and entertainment	97	0%	87	0%	163	0%	148	0%
Total	$ 8,934		$ 10,236		$ 18,084		$ 21,705	

Non-cash Impairment

The Company is required to assess its goodwill and long-lived assets, including property, plant and equipment and intangible assets for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. During the year ended December 31, 2023, it was determined that all intangible assets were fully impaired. There was no impairment recognized during the three and six months ended June 30, 2024 and 2023.

Other income (expense)

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

For the three and six months ended June 30, 2024 and 2023, other income (expense) 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
$ in thousands				
Interest income (expense), net	$ (4,182)	$ (4,747)	$ (8,636)	$ (8,940)
Other income (expense), net	379	6,593	551	6,789
Loss on sale of business	306	-	306	-
Fair value gain in derivative liabilities	4,128	42	191	436
Gain on assignment of non-controlling interests	-	8	-	440
Foreign exchange gain (loss)	1,026	(1,887)	101	53
Total other income (expense), net	$ 1,657	$ 9	$ (7,487)	$ (1,222)

Income Taxes

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

Selected Financial Information

Selected Quarterly Financial Results

The following table, which presents the Company's quarterly results of operations, should be read in conjunction with the Q2 2024 Financial Statements and related notes thereto. Operating results for any quarter are not necessarily indicative of results for any future quarters, or for a full year. Selected financial information for the eight most recently completed quarters as at June 30, 2024 are as follows:

	2024		2023				2022	
$ in thousands, except share amounts	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	$	$	$	$	$	$	$	$
Net revenue	27,770	25,406	25,058	25,486	25,340	24,658	25,535	30,847
Cost of goods sold	13,651	13,593	15,126	14,550	13,513	14,231	17,711	19,782
Gross profit before FVLCS	14,119	11,813	9,932	10,936	11,827	10,427	7,824	11,065
Gross profit	14,854	11,730	10,450	11,256	12,145	10,471	7,489	9,468
Impairment loss	-	-	16,541	-	-	-	204,853	-
Expenses	11,508	13,287	11,809	14,309	14,071	16,274	16,735	21,037
Operating income (loss)	3,347	(1,557)	(18,400)	(3,554)	(1,925)	(5,803)	(214,099)	(11,569)
Other income (expense)	1,657	(9,144)	(1,692)	(4,625)	9	(1,231)	(4,407)	(6,069)
Income tax benefit (expense)	(4,795)	(7,164)	514	(8,865)	(595)	(3,846)	19,632	(2,823)
Non-controlling interests	1	(20)	730	(201)	(385)	(277)	(13)	(332)
Net income (loss) attributable to StateHouse Holdings Inc.	209	(17,845)	(20,308)	(16,842)	(2,127)	(10,603)	(198,861)	(20,129)
Net income (loss) per share - basic	-	(0.07)	(0.08)	(0.07)	(0.01)	(0.05)	(0.93)	(0.08)
Net income (loss) per share - diluted	-	(0.07)	(0.08)	(0.07)	(0.01)	(0.05)	(0.93)	(0.08)

Financial Information for the Three and Six Months Ended June 30, 2024 and 2023

The following tables set forth selected consolidated financial information for the periods indicated that are derived from, and should be read in conjunction with, the Q2 2024 Financial Statements and related notes included thereto.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
$ in thousands	**2024**	**2023**	**2024**	**2023**
Net revenue	$ 27,770	$ 25,340	$ 53,176	$ 49,998
Cost of goods sold	13,651	13,513	27,244	27,743
Gross profit before biological asset adjustments	14,119	11,827	25,932	22,255
Gross margin	50.8%	46.7%	48.8%	44.5%
FVLCS of biological asset transformation	768	935	(169)	(336)
Realized fair value amounts included in inventory	(33)	(617)	821	697
Gross profit	14,854	12,145	26,584	22,616
Gross margin	53.5%	47.9%	50.0%	45.2%
Total expenses	11,508	14,071	24,795	30,345
Total other income (expense), net	1,657	9	(7,487)	(1,222)
Income tax benefit (expense)	(4,795)	(595)	(11,959)	(4,442)
Non-controlling interests	1	(385)	(20)	(662)
Net income (loss) attributable to StateHouse Holdings Inc.	$ 209	$ (2,127)	$(17,636)	$ (12,730)

The Company has been focused on optimizing its operations, leveraging assets acquired through acquisitions and realizing synergies from expanding the size of its overall business and integrating its operations to achieve profitability.

Revenue

During the three months ended June 30, 2024, the Company generated total net revenue of $27.8 million compared to $25.4 million for the three months ended June 30, 2023. Retail, branded wholesale and manufacturing and cultivation revenue for the three months ended June 30, 2024, totaled $13.5 million, $10.7 million, and $3.6 million, respectively, compared to retail, branded wholesale and manufacturing and cultivation revenue for the three months ended June 30, 2023, of $13.0 million, $11.2 million, and $1.2 million, respectively.

The increase in retail revenue of $0.5 million, representing an approximate increase of 3.6%, was primarily attributable to a 14% increase in transaction count period over period.

The decrease in branded wholesale and manufacturing revenue of $0.5 million, representing decline of approximately 4.1%, was primarily attributable to an overall decline in the California market resulting in decreased foot traffic after the cannabis 420 holiday.

The increase in cultivation revenue of $2.4 million, representing growth of approximately 203.8%, was primarily attributable to the Company increasing yields and producing high-quality product that achieves a premium in the bulk market.

During the six months ended June 30, 2024, the Company generated total net revenue of $53.2 million compared to $50.0 million for the six months ended June 30, 2023. Retail, branded wholesale and manufacturing and cultivation revenue for the six months ended June 30, 2024, totaled $25.4 million, $22.2 million, and $5.6 million, respectively, compared to retail, branded wholesale and manufacturing and cultivation revenue for the six months ended June 30, 2023, of $27.4 million, $20.6 million, and $2.0 million, respectively.

The decrease in retail revenue of $2.0 million, representing a decrease of approximately 7.3%, was primarily attributable to the Company's sale or closure of four operating stores between June 30, 2023 to June 30, 2024, as well as, increased competition and price compression.

The increase in branded wholesale and manufacturing revenue of $1.6 million, representing growth of approximately 7.7%, was primarily attributable to continued customer enthusiasm for the Company's brands and products and strong selling programs which have resulted in increased market share. Although the Company doesn't experience significant seasonality, there was a significant load-in of branded wholesale sales to retail during the first quarter of 2024, which led to slower branded wholesale sales in the market during the second quarter of 2024.

The increase in cultivation revenue of $3.6 million, representing growth of approximately 182.3%, was primarily attributable to the Company increasing yields and producing high-quality product that achieves a premium in the bulk market. The Company's strategy to improve gross profits involves monitoring California bulk pricing to determine the optimal mix of internal utilization and external sale of its self-produced cannabis flower and trim in its branded products.

The Company expects to improve gross profits by monitoring California bulk pricing to determine the optimal mix of internal utilization and external sale of its self-produced cannabis flower and trim in its branded products.

COGS and Gross Profit

During the three months ended June 30, 2024, COGS for the retail, branded wholesale and manufacturing and cultivation operations totaled $4.5 million, $6.9 million and $2.3 million, respectively, compared to COGS of $5.5 million, $6.6 million and $1.4 million, respectively, for the three months ended June 30, 2023. Consolidated gross profit before biological asset adjustments for the three months ended June 30, 2024 and 2023, were $14.1 million and $11.8 million, respectively, for a gross margin of 50.8% and 46.7%, respectively. Quarter over quarter combined gross margins increased primarily due to the demand for the Company's high-quality cannabis products, better utilization of raw materials due to vertical integration, and improved operational efficiencies.

During the six months ended June 30, 2024, COGS for the retail, branded wholesale and manufacturing and cultivation operations totaled $9.9 million, $12.6 million and $4.8 million, respectively, compared to COGS of $11.4 million, $14.6 million and $1.7 million, respectively, for the six months ended June 30, 2023. Consolidated gross profit before biological asset adjustments for the six months ended June 30, 2024 and 2023, were $25.9 million and $22.3 million, respectively, for a gross margin of 48.8% and 44.5%, respectively. Period over period combined gross margins increased primarily due to the demand for the Company's high-quality cannabis products, better utilization of raw materials due to vertical integration, and improved operational efficiencies.

Total Operating Expenses

During the three months ended June 30, 2024 and 2023, the Company incurred total operating expenses of $11.6 million and $14.1 million, respectively, a decrease of $2.5 million. The decrease in total operating expenses was primarily related to the following items:

- A decrease in general and administrative expenses of $1.3 million, to $8.9 million in the three months ended June 30, 2024 compared to $10.2 million in the three months ended June 30, 2023. The decrease in general and administrative expenses was primarily attributable to a $1.0 million decrease in salaries and benefits from selective headcount reductions and from the reduced headcount assumed in connection with the sale of LGCLORDIS2. The Company's headcount as at June 30, 2024, was approximately 323 employees compared to approximately 375 as at June 30, 2023.
- A decrease in depreciation and amortization of $1.0 million, to $0.3 million in the three months ended June 30, 2024 compared to $1.3 million in the three months ended June 30, 2023. The decrease was due to less property, plant and equipment on hand from disposals and sales of property and equipment.

During the six months ended June 30, 2024 and 2023, the Company incurred total operating expenses of $24.9 million and $30.3 million, respectively, a decrease of $5.4 million. The decrease in total operating expenses was primarily related to the following items:

- A decrease in general and administrative expenses of $3.6 million, to $18.1 million in the six months ended June 30, 2024 compared to $21.7 million in the six months ended June 30, 2023. The decrease in general and administrative expenses was primarily attributable to a $2.5 million decrease in salaries and benefits from selective headcount reductions, the reduced headcount from the sale of the dispensary in Grossmont, the reduced headcount from the closure of the Desert Hot Springs dispensary and from the reduced headcount assumed in connection with the sale of Terpene Station.

- A decrease in depreciation and amortization of $1.1 million, to $1.5 million in the six months ended June 30, 2024 compared to $2.6 million in the six months ended June 30, 2023. The decrease was due to less property, plant and equipment on hand from disposals and sales of property and equipment.

The Company continues to implement cost savings initiatives including reduced spending across all business lines, application of artificial intelligence and other technology to improve efficiencies, elimination of redundant services and subscriptions and re-negotiating contracts with vendors.

Operating Income (Loss)

The Company's income from operations for the three and six months ended June 30, 2024 totaled $3.2 million and $1.7 million, respectively. Operating loss for the three and six months ended June 30, 2023, totaled $1.9 million and $7.7 million, respectively. The Company is focused on optimizing its operations, leveraging its assets and realizing synergies from expanding the size of its overall business. In addition, the Company continues to identify and launch additional integration and growth efforts which are expected to improve profitability.

Total Other Income (Expense)

For the three months ended June 30, 2024, other income (expense) was $1.7 million, comprised primarily of interest expense of $4.2 million offset by a gain on foreign exchange of $1.0 million and a $4.1 million gain on the fair value of derivative liabilities.

For the six months ended June 30, 2024, other income (expense) was ($7.5) million, comprised primarily of interest expense of $8.7 million offset by a gain on foreign exchange of $0.1 million and a $0.2 million gain on the fair value of derivative liabilities.

Provision for Income Taxes

During the three months ended June 30, 2024, the Company recorded income tax expense of $4.8 million compared to income tax expense of $0.6 million for the three months ended June 30, 2023.

During the six months ended June 30, 2024, the Company recorded income tax expense of $12.0 million compared to income tax expense of $4.4 million for the six months ended June 30, 2023.

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

Overall, the net income (loss) attributable to the Company for the three and six months ended June 30, 2024 was $0.2 million (net income of $(0.00) per share), and ($17.6) million, (net loss of ($0.07) per share), respectively, compared to a net loss of $2.1 million (net loss of $(0.01) per share) and $12.7 million, net loss of ($0.05) per share), respectively, for the three and six months ended June 30, 2023.

Reconciliation of Non-IFRS Measures

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

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

Adjusted Gross Profit & Adjusted Gross Margin

Adjusted Gross Profit and Adjusted Gross Margin exclude the changes in fair value less costs to sell ("FVLCS") of the Company's biological assets. Management believes these measures provide useful information as they represent the gross profit based on the Company's cost to produce inventories sold while removing fair value measurements which are tied to changing inventory components and levels, as required by IFRS. These non-IFRS financial measures are not recognized under IFRS and, accordingly, users are cautioned that these measures should not be construed as alternatives to net income determined in accordance with IFRS. The non-IFRS measures presented may not be comparable to similar measures presented by other issuers. See "Use of Non-IFRS Financial Measures" below.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
$ in thousands	2024	2023	2024	2023
	$	$	$	$
Net Revenue	27,770	25,340	53,176	49,998
Gross Profit	14,854	12,145	26,584	22,616
Adjusted for:				
Net effect of change in fair value less cost to sell of biological asset transformation	(735)	(318)	(652)	(361)
Adjusted Gross Profit	14,119	11,827	25,932	22,255
Adjusted Gross Margin	50.8%	46.7%	48.8%	44.5%

After adjusting for the net effect of the change in fair value less cost to sell of biological asset transformation, the Adjusted Gross Profit for the three and six months ended June 30, 2024 was $14.1 million and $25.9 million, respectively. The Adjusted Gross Margin for the three and six months ended June 30, 2024 was 50.8% and 48.8%, respectively. Adjusted Gross Profit for the three and six months ended June 30, 2023 was $11.8 million and $22.3 million, respectively. The Adjusted Gross Margin for the three and six months ended June 30, 2023 was 46.7% and 44.5%, respectively.

Adjusted EBITDA & Adjusted EBITDA Margin

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

As reflected in the following table, after adjusting for depreciation and amortization, interest, provisions for income taxes, other non-cash and extraordinary non-recurring items, share-based compensation, the non-cash effects of accounting changes in biological asset adjustments and derivative liabilities, Adjusted EBITDA for the three and six months ended June 30, 2024, was $4.9 million and $6.1 million, respectively. During the three and six months ended June 30, 2024, the Adjusted EBITDA Margin was 17.5% and 11.5%, respectively. Adjusted EBITDA for the three and six months ended June 30, 2023, was $0.9 million and ($1.4) million, respectively. During the three and six months ended June 30, 2023, the Adjusted EBITDA Margin was 3.6% and (2.9%) respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
$ in thousands	2024	2023	2024	2023
Net income (loss) attributable to StateHouse Holdings Inc.	$ 209	$ (2,127)	$ (17,636)	$ (12,730)
Adjusted for:	-	-	-	-
Biological assets adjustments	(735)	(318)	(652)	(361)
Share-based compensation	183	454	721	1,249
Depreciation and amortization	332	1,280	1,451	2,554
Depreciation included in COGS	1,061	883	1,948	1,835
Interest expense	4,182	4,747	8,636	8,940
Fair value change in derivative liabilities	(4,128)	(42)	(191)	(436)
Foreign exchange (gain) loss	(1,026)	1,887	(101)	(53)
Gain on assignment of non-controlling interests	-	(8)	-	(440)
Other income related to ERC	-	(6,449)	-	(6,449)
Income tax expense	4,795	595	11,959	4,442
Adjusted EBITDA	$ 4,873	$ 902	$ 6,135	$ (1,449)
Adjusted EBITDA Margin	17.5%	3.6%	11.5%	-2.9%

Summary of Significant Accounting Policies

See Note 2, *Summary of Significant Accounting Policies* in the Q2 2024 Financial Statements for the Company's disclosures on the significant accounting policies. The significant accounting policies applied in the preparation of the Q4 2023 Financial Statements have been applied consistently to all periods presented in the Q2 2024 Financial Statements.

Adoption of Accounting Policies

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

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

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

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 do not have a significant impact to the Company have been excluded in this MD&A.

The Company is currently assessing the impact that adopting the new standards or amendments will have on its Q2 2024 Financial Statements.

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.

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.

Critical Accounting Estimates and Judgments

The preparation of the Company's Q2 2024 Financial Statements in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the Q2 2024 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 bring cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle of such biological assets.

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

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

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

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

Provision for expected credit losses ("ECL")

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

Estimated useful lives of depreciation and amortization of property, plant and equipment

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 in profit or loss for the amount by which the carrying amount of the asset exceeds the recoverable amount.

Incremental borrowing rate for leases under IFRS 16 - Leases

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

Leases

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

Share-based payment arrangements

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

Compound financial instruments

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

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

Income taxes

Income taxes and tax exposures recognized in the Q2 2024 Financial Statements reflect management's best estimate of the outcome based on facts known at the reporting date. The Company recognizes a liability when, based on its estimates, it anticipates a future income tax payment. A difference between an expected amount and the final tax outcome has an impact on current and deferred taxes in the period when the Company becomes aware of this difference.

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

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

Provisions

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

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

Going concern

At the end of each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends and are consistent with those used to evaluate impairment of long-lived assets as at June 30, 2024.

As indicated in Note 15 of the Q2 2024 Financial Statements, 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 which began on August 1, 2022.

Outside of the Company's IRS Agreement for PMACC, the timing of additional payments arising from these or any future uncertain tax positions is expected to exceed twelve months from the date the Q2 2024 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 the Board to explore strategic alternatives and engage in negotiations with lenders to strengthen the balance sheet.

Working Capital and Liquidity Outlook[2]

Overview

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

As at June 30, 2024, the Company had total current assets of approximately $30.6 million, including cash of approximately $2.1 million, to settle current liabilities of approximately $186.6 million, for a net working capital deficiency of approximately $156.0 million. As at December 31, 2023, the Company had current assets of approximately $29.2 million, including cash of approximately $2.4 million, to settle current liabilities of approximately $132.5 million, for a net working capital deficiency of approximately $103.3 million. The Company had losses of approximately $1.4 million and $19.3 million for the three and six months ended June 30 2024, respectively.

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

The Company's plan to ensure operational continuity includes the implementation of its cost savings plan, and various strategic actions, including the divesture of non-core assets including but not limited to the current assets held for sale, as well as its on-going revenue strategies to increase market share and retail, manufacturing and wholesale revenue. 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 and the Company has not paid full cash interest payments since February 2024. The Company is currently engaged in negotiating the terms of the Company's debt and ongoing interest obligations.

The amount of current liabilities as at June 30, 2024 and December 31, 2023, of approximately $186.6 million and $132.5 million, respectively, includes the provision for an uncertain tax position related to IRC §280E, and the estimated federal income taxes payable as at period-end. Although the provision is shown in current liabilities, only $0.6 million is expected to be paid within the next twelve months in accordance with the IRS Agreement entered into by the Company on July 28, 2022. The remaining balance in the provision relates to uncertain tax positions in which the Company does not currently expect any material payments resulting from its IRC §280E provision to be made within 12 months of the issuance date of the Q2 2024 Financial Statements. See "Provisions" for additional information.

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

Selected Cash Flow Information for the Three and Six Months Ended June 30, 2024 and 2023

$ in thousands	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Net cash (used in) provided by:				
Net Loss	$ 209	$ (2,512)	$ (17,656)	$ (13,392)
Adjustments for items not involving cash	(22,699)	(9,130)	(13,814)	(5,681)
Changes in working capital items	22,899	15,294	32,544	21,366
Operating activities	409	3,652	1,074	2,293
Financing activities	(615)	(1,043)	(1,856)	(2,298)
Investing activities	(623)	(58)	(623)	(175)
Net increase (decrease) in cash	(829)	2,551	(1,405)	(180)
Effect of foregin exchange on cash	1,768	(1,914)	1,032	37
Cash, beginning of period	1,118	2,639	2,430	3,419
Cash, end of period	$ 2,057	$ 3,276	$ 2,057	$ 3,276

Operating Activities

Net cash provided by operating activities totaled $0.4 million and $1.1 million for the three and six months ended June 30, 2024, respectively. Net cash provided by operating activities totaled $3.7 million and $2.3 million for the three and six months ended June 30, 2023, respectively. The fluctuation in cash provided by operating activities was primarily due to improvement in net loss, adjustments to reconcile the net loss to cash and fluctuations in the Company's operating assets and liabilities.

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

Financing Activities

Net cash used in financing activities totaled $0.6 million and $1.9 million for the three and six months ended June 30, 2024, respectively, compared to net cash used in financing activities of $1.0 million and $2.3 million for the three and six months ended June 30, 2023, respectively. The Company's financing activity for the three and six months ended June 30, 2024 and 2023 consisted of principal payments on lease obligations.

Investing Activities

Net cash used in investing activities totaled $0.6 million for the three and six months ended June 30, 2024, compared to net cash used in investing activities of $0.1 million and $0.2 million for the three and six months ended June 30, 2023, respectively. The activity during the three and six months ended June 30, 2024 and 2023 related to purchases of property, plant and equipment.

Contractual Obligations

In addition to the commitments outlined in Note 9, *Right-of-use Assets and Lease Liabilities and Commitments,* and Note 25, *Contingencies*, of the Q2 2024 Financial Statements, 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

Commitments and Contingencies

See Note 25, *Commitments and Contingencies,* in the Q2 2024 Financial Statements for the Company's disclosures on commitments and contingencies.

Off-Balance Sheet Arrangements

As at June 30, 2024, and the date of this MD&A, the Company does not have any off-balance sheet arrangements.

Related Party Transactions

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.

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.

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 Q2 2024 Financial Statements.

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 Q2 2024 Financial Statements.

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 Q2 2024 Financial Statements.

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.

Capital Management

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

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

(i) minimizing discretionary disbursements;
(ii) reducing operating expenditures throughout the Company; and,
(iii) exploring alternate sources of liquidity.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no material changes to the Company's capital management approach during the three and six months ended June 30, 2024 and 2023.

Financial and Risk Management

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

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 $2.1 million and $2.4 million, respectively, to settle current liabilities of $186.5 million and $132.5 million, respectively. The higher amount of current liabilities as at June 30, 2024 is primarily due to debt, the provision and the Company's excise and cultivation tax liabilities.

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.

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%. 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 $0.1 million 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.

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.

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.

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

Tax Risk

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

Regulatory Risk

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

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

Issued and Outstanding Share Capital

As at June 30, 2024 and the date of this MD&A, the Company had the following securities issued and outstanding on a fully diluted basis, expressed as the number of Common Shares issuable upon conversion or exercise, as applicable, of such securities:

Designation of Securities	**Number of Underlying Common Shares**
Common Shares	256,420,564
Options	19,764,242
Restricted Share Units	1,687,500
Warrants	138,258,279
Total Fully Diluted Share Capital	**416,130,585**

Subsequent Events

Entity Dissolution

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

Filing Outstanding Annual Filings and FFCTO revoked

On August 1, 2024, the Company filed the Outstanding Annual Filings and the financial results for the three months ended March 31, 2024 (the "Q1 2024 Filings"). Upon filing the Outstanding Annual filings and the Q1 2024 Filings, the Company applied to have the FFCTO revoked, and trading of the Common Shares resumed on the CSE on August 8, 2024.

Director Changes

Effective July 31, 2024, Kevin Albert was appointed as a Director of the Board. Mr. Albert will serve on the Company's audit committee ("Audit Committee") and the Special Committee.

Disclosure of Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in NI 52-109 and Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Refer to the MD&A for the year ended December 31, 2023, for a discussion regarding the Company's internal control over financial reporting. There have been no changes in the Company's internal control over financial reporting during the three and six months ended June 30, 2024, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risk Factors

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

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

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

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

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

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

The Company operates in and/or has ownership interests in California, pursuant to state and local law and regulations. StateHouse's retail dispensaries serve both adult-use and medical cannabis customers. Harborside-branded retail dispensaries in California are located in Oakland, San Jose, San Leandro, and San Francisco. Urbn Lead-branded retail dispensaries in California are located in San Diego, San Ysidro, Grover Beach, La Mesa, San Jose, Vista and West Hollywood. The Company's retail dispensaries have over 15 continuous years of operating history.

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

The Company owns a number of different cannabis brands that it sells through wholesale and retail markets including "Fuzzies", "Loudpack", "King Pen", "King Roll", "Dime Bag", "Harborside", "Harborside Farms", "Key", "Terpene Station", "Sublime", and "Urbn Leaf". In addition, the Company exclusively licenses the "Smokiez" brand in California.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On April 30, 2024, the United States Department of Justice recommended marijuana be rescheduled from a Schedule I to Schedule III controlled substance, and published a notice of proposed rulemaking on May 21, 2024. There was a sixty-day comment period for the proposed rulemaking, which closed on July 22, 2024. Over 43,000 comments were received, with an overwhelming majority of comments advocating for Schedule III rescheduling or descheduling altogether. The notice of proposed rulemaking is but one step in a complex administrative and political process involving numerous stakeholders whose commitment to rescheduling marijuana is unclear.

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

U.S. Federal Budget Rider Protection

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

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

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

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

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

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

Asset forfeiture risk

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

Unfavorable tax treatment of cannabis businesses

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

Limited trademark protections

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

Reliance on third-party service providers

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

Customs and Border Protection

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

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

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

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

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

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

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

Notwithstanding that a majority of states have legalized medical cannabis, and the U.S. House's passage of the SAFE Banking Act, the SAFE Banking Act has not been enacted into law, and there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that the U.S.

federal government maintains sole jurisdiction over federally chartered banks and financial institutions, and that federal law provides that the production and possession of cannabis is illegal under the FCSA, federally chartered banks cannot accept funds for deposit from businesses involved with the cannabis industry. To date, fewer than 800 banks and credit unions in the U.S. offer financial services to the cannabis industry.

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

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

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

The following represents the approximate portion of certain assets on StateHouse's unaudited condensed interim consolidated statements of financial position that pertain to U.S. cannabis activities as at June 30, 2024:

Statements of Financial Position Line Items	**Percentage (%) which related to holdings with U.S. cannabis-related activities**
Cash	98%
Accounts receivable, net	98%
Inventories	100%
Biological assets	100%
Prepaid expenses	58%
Notes receivable	94%
Assets held for sale	100%
Investments and advances	100%
Property, plant and equipment, net	100%
Right-of-use assets	100%
Deposits and other assets	100%
Intangible assets	100%

The following represents the approximate operating exposure on StateHouse's unaudited condensed interim consolidated statements of income (loss) and comprehensive income (loss) that pertain to U.S. cannabis activities for six months ended June 30, 2024:

Statements of Income (Loss) and Comprehensive Income (Loss) Line Items	**Percentage (%) which related to holdings with U.S. cannabis-related activities**
Net revenue	100%
Cost of goods sold	100%
Changes in fair value less costs to sell of biological assets transformation	100%
Realized fair value amounts included in inventory sold	100%
General and administrative expenses	96%
Professional fees	83%
Share-based compensation	100%
Allowance for expected credit losses	100%
Depreciation and amortization	100%
Interest income (expense), net	69%
Other income (expense), net	100%
Gain on assignment of membership interest	100%
Fair value gain in derivative liabilities	100%
Foreign exchange gain (loss)	-

(vii) Summary of applicable state regulations in California

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

California

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

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

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

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

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

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

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

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

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

The Company's cannabis goods are produced in full compliance with all applicable state laws and regulations. The goods are tested for potency and safety by independent laboratories licensed by the DCC, and all other consumer protection and youth access-prevention laws are adhered to, including but not limited to state packaging, labeling, marketing and advertising laws. All applicable local and state cannabis taxes are paid and remitted to the applicable taxing authorities.
In order to satisfy regulations intended to prevent diversion to the illicit market, the Company employs inventory control and reporting systems that document the present location, amount, and a description of all cannabis goods at all StateHouse entities. All cannabis goods are tracked from seed to shelf using METRC technology, and other integrated systems adopted by the Company. Cannabis inventory is regularly manually reconciled against METRC according to the regulations. The Company performs regular monthly manual inventory reconciliations.

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

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

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

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

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

- monthly internal audits of Company processes and procedures; and,
- facility inspections to ensure compliance with the Company's policies, procedures and controls, and applicable local and state rules and regulations.

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

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

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

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

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

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

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian securities laws and United States securities laws ("forward-looking statements"). All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements are often identified by words such as "may", "would", "could", "should", "will", "intend", "plan", "seek", anticipate", "believe", "estimate", "expect" or similar words and expressions. Examples of forward-looking statements include, among others, statements relating to information set out in this MD&A under the headings "Outlook and Growth Strategy", and "Working Capital and Liquidity Outlook" and statements and information regarding: the Company's future financial position and results of operations, strategies, plans, objectives, goals and targets; future developments in the markets in which the Company participates or is seeking to participate; the potential divestiture of non-core assets; the potential opening of additional dispensaries; potential future legalization of adult-use and/or medical cannabis under U.S. federal law; expectations of market size and growth in the U.S. and the states in which the Company operates; expectations of market size and growth in the U.S. and the states in which the Company operates; expectations regarding the Company's position in the California cannabis sector; expectations of improved efficiencies, financial flexibility, future product offerings and integration opportunities; comparisons of the Company to other cannabis issuers in California; the ability of the Board to oversee the Company's business strategy and safeguard the interests of all shareholders and preserve and enhance shareholder value; expectations regarding the evolution of the regulatory landscape for cannabis and cannabis derivative products; the competitive conditions of the cannabis industry and the competitive and business strategies of the Company; expectations that increased scale and vertical integration will drive margin expansion, the acquisition of new branded products, the generation of additional revenue generating services, and increased revenue to be received in connection with the new loyalty program; and, expectations for other economic, business, regulatory and/or competitive factors related to the Company or the cannabis industry generally and other events or conditions that may occur in the future. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on management's current beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions of the Company. Although the Company believes that the expectations, estimates, and projections reflected in such forward-looking statements are reasonable, such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance, or achievements to differ materially from those suggested by the forward-looking statements. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. On this basis, readers are cautioned not to place undue reliance on such forward-looking statements.

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

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

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

Use of Non-IFRS Financial Measures

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

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

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

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

There are no comparable IFRS financial measures presented in the Q2 2024 Financial Statements. Reconciliations of the supplemental non-IFRS financial measures are presented in this MD&A. The Company provides the non-IFRS financial measures as supplemental information and in addition to the financial measures that are calculated and presented in accordance with IFRS. These supplemental non-IFRS financial measures are presented because management believes such measures provide information which is useful to shareholders and investors in understanding its performance and which may assist in the evaluation of the Company's business relative to that of its peers. However, such measures should not be considered superior to, as a substitute for or as an alternative to, and should only be considered in conjunction with, the most comparable IFRS financial measures.

Additional Information

Additional information relating to StateHouse, including its Annual Information Form, can be found on the Company's SEDAR+ profile at www.sedarplus.ca, or its website at https://www.statehouseholdings.com/.

Management's Responsibility for Financial Information

Management is responsible for all information contained in this MD&A. The Company's Q2 2024 Financial Statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this MD&A is consistent with that contained in the Q2 2024 Financial Statements in all material aspects.

Approval

The Audit Committee has reviewed the Q2 2024 Financial Statements and this MD&A with management of the Company. At the recommendation of the Audit Committee, the Board has approved the Q2 2024 Financial Statements and the disclosures contained in this MD&A.

August 29, 2024

Edward M. Schmults
CEO and Director