Stem Holdings, Inc.

Management's Discussion and Analysis

This discussion and analysis of financial condition and results of operations for the three months ended December 31, 2016 should be read in conjunction with the audited financial statements of Stem Holdings, Inc. ("Stem" or the "Company"), notes thereto and the Management Discussion and Analysis of the Company for the year ended September 30, 2016. The financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and are expressed in U.S. Dollars.

Additional information relating to the Company is available through SEDAR at www.sedar.com. This Management's Discussion and Analysis is dated as of March 01, 2017. Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars.

OVERVIEW

Stem Holdings, Inc. (the "**Company**" or "**Stem**") is a Nevada corporation incorporated on June 7, 2016. The Company was formed to purchase, improve, and lease properties and finance assets which are operated by third parties and are used for the cultivation and retail sale of marijuana. During the period from June 7, 2016 (date of inception) to December 31, 2016 the Company was an early stage company which was only engaged in initial capital formation, general and administrative activities related to formation of the company and initial acquisitions.

Financial overview

The Company had no revenues during the three months ended December 31, 2016 and incurred an aggregate of general and administrative expense of $145,296 during the same period. From inception to December 31, 2016, the Company raised an aggregate of $2,722,249 after paying costs of raising those funds. Subsequent to December 31, 2016, the Company raised additional gross proceeds of $2,454,845 through its acquisition of Patch Interntional, Inc. ("Patch"). Given that the Company was formed on June 7, 2016, there is no comparable data for any prior periods.

Results of Operations

The Company did not have any active operations for the three months ended December 31, 2016 and incurred an aggregate of general and administrative expense of $145,296 during the period. The expense was primarily attributable to professional fees attributable to the Company's formation, capital raising activities, and the transaction with Patch International, Inc. (see below).

Summary of Results

	June 7, 2016 to September 30, 2016	Three Months Ended December 31, 2016
Revenues	$0.00	$0.00
Net (loss)	($92,802)	($145,296)
Basic and diluted earnings (loss) per share	($0.03)	($0.03)

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

During the three-month period ended December 31, 2016, cash used in operations totaled $796,170. There is no data for any comparable periods. During the period from June 7, 2016 (date of inception) to December 31, 2016, the Company sold an aggregate of 4,794,163 shares of common stock for an aggregate purchase price of $2,722,249. This reflects the sale of 2,750,000 shares of the Company's common stock at $0.001 per share, 1,010,000 shares at $0.15 per share and 226,666 shares at $2.40 per share.

The Company had cash of $897,709 as of December 31, 2016. Through December 31, 2016, the Company raised additional gross proceeds of $229,999 in private placements of its common stock. Based on its current run-rate for operating expenses, the Company believes that it has sufficient cash on hand to fund its operating expenses for at least two years.

Patch International, Inc. Transaction

On January 20, 2017, the shareholders of Patch voted to be acquired by the Company. As a result, the acquisition of Patch closed and the Company received an additional $2,454,845 which was on Patch's books at the time of the acquisition. Effective January 20, 2017, Patch became a wholly-owned subsidiary of the Company. See also *Subsequent Events*, below.

EQUITY

As of December 31, 2016, shareholders' equity was $2,089,255. There were 4,794,163 shares of common stock issued and outstanding at December 31, 2016. The Company has paid no dividends.

CRITICAL ACCOUNTING POLICIES

Use of estimates

The preparation of our financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgments used are based on management's experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the financial statements are prepared. Actual results may differ from these estimates.

Capitalization of Project Costs

The Company's policy is to capitalize all costs that are directly identifiable with a specific property, would be capitalized if the Company had already acquired the property, and when the property, or an option to acquire the property, is being actively sought after, and either funds are available or will likely become available. All amounts shown capitalized prior to acquisition of a property are included under the caption of Project Costs in the balance sheet.

Emerging Growth Company

The Company has elected to be an emerging growth company as defined under the Jumpstart Our Business Startups Act of 2012 ("Jobs Act"). Included with this election, the Company has also elected to use the provisions within the Jobs Act that allow companies that go public to continue to use the private company adoption date rules for new accounting policies. Should the Company obtain revenues in excess of $1 billion on an annual basis, have its non-affiliated market capitalization increase to over $700 million as of the last day of its second quarter, or raise in excess of $1 billion in public offerings of its equity or instruments directly convertible into its equity, it will forfeit its status under the Jobs Act as an emerging growth company.

RELATED TRANSACTIONS

The Company had no related party transactions during the three months ended December 31, 2016.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In September 2016, the Company entered into a 10-year lease with respect to a property located in Springfield, Oregon that commenced in November 2016. The lease requires the Company to pay a base rental fee of $7,033, which escalates each year by approximately 2%, plus an additional estimated $315 per month in real estate taxes. All taxes (including reconciling real estate taxes), maintenance and utilities are included at the end of each year as

a one-time payment. In addition, the Company also remitted $14,000 for a security deposit to the landlord. The Company expects to sublease this space in the near future.

The future minimum lease payments are as follows:

For the year ending December 31,		
2017	$	80,828
2018		89,738
2019		91,475
2020		93,270
Thereafter		608,205
	$	963,516

In August 2016, the Company and certain shareholders of the Company entered into an Agreement, in which the Company became obligated to lease or acquire three separate real estate assets, and separately, if certain events occur (see below), additional real estate assets held by entities related to those shareholders. Pursuant to this Agreement, in September 2016, the Company entered into the lease for a property located in Springfield, Oregon as more fully described above, and in November 2016, acquired a property located in Eugene, Oregon pursuant to the assignment of a Purchase Agreement to the Company by a shareholder of the Company for a purchase price of $910,000 plus closing costs. In addition, in the event that the Company deploys more than $10 million in investment in real estate assets, the Company is required to acquire certain real estate properties from certain of the Company's shareholders and their affiliated entities.

Certain shareholders have begun organizing companies that will operate directly in the cannabis industry, and the Company intends to offer leases to these entities in the near future. The Agreement also requires that in the event that the U.S. Government Amends Title 21 of the United States Code, otherwise known as the Controlled Substances Act, to remove cannabis as a Schedule I drug, the Company is required to enter into agreements to acquire those related entities.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

SUBSEQUENT EVENTS

In November 2016, the Company entered into the Arrangement Agreement with Patch to acquire 100% of the issued and outstanding shares of Patch. As of the time of the Arrangement Agreement, Patch did not have any operations, and was considered a dormant entity. In order to close the transaction, Patch was required to submit the arrangement for approval to the Alberta Court of Queen's Bench (the final order was granted on January 20, 2017), hold a

general meeting of its shareholders and have the shareholders vote to approve the arrangement (which took place on January 19, 2017), and certain other customary requirements. On January 19, 2017, the Patch shareholders held their general meeting and they voted to be acquired by the Company. On January 20, 2017, the Company issued 1,048,782 of its shares of common stock to acquire 100% of the issued and outstanding shares of Patch (subject to the rights of certain dissenting Patch shareholders which represented less than 2% of the outstanding Patch shares). The aggregate cash held by Patch at the closing was US$2,454,845. The Company has been informed that two shareholders, representing less than 2% of Patch shares outstanding have chosen to not vote for the arrangement. Under applicable Canadian law, the Company will be required to purchase those shares held by such dissenting shareholders after negotiations on price have occurred.

On February 6, 2017, the Company completed the acquisition of a retail property located in Portland, Oregon for a purchase price of $650,000 plus closing costs.

The Company has completed the lease of the Springfield, Oregon Property and is currently in the process of leasing the property to identified operating companies. Certain shareholders and management of the identified operating companies are also shareholder's officers and directors of the Company. The Company is continuing to assess alternatives for the purchase of the Farm Property and is currently conducting due diligence with respect to a potential site.

RISKS

We have a limited operating history and have not yet generated revenues*.*

We are an early stage business that was founded in 2016, with no operating history from which to evaluate its business prospects. We have accrued accumulated net losses from our date of inception. We face risks encountered by early stage companies in general, including but not limited to: difficulty in raising sufficient funding to achieve growth objectives, uncertainty of market acceptance of our products and services, and the ability to attract and retain qualified personnel. There can be no guarantees that we will be successful in managing these risks, and if we are unsuccessful in doing so, our shareholders face the risk of losing their entire investment.

Because marijuana is illegal under U.S. federal law, we could be subject to criminal and civil sanctions for engaging in activities that violate those laws.

The concepts of "medical marijuana and "retail marijuana" do not exist under U.S. federal law. The Federal Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in United States, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under U.S. federal law. While we have no intent to produce, process, or sell cannabis until and unless it is legal for us to

do so under federal law, strict compliance with state laws with respect to marijuana will neither absolve the Company of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company.

U.S. Federal laws and regulations may hinder the Company's ability to establish and maintain bank accounts

The U.S. federal law prohibitions on the sale of marijuana may result in the Company being restricted from accessing the U.S. banking system and the Company may be unable to deposit funds in federally insured and licensed banking institutions. While the Company does not anticipate dealing with banking restrictions directly relating to its business, banking restrictions could nevertheless be imposed.

Laws and regulations affecting the regulated marijuana industry are constantly changing, which could detrimentally affect our proposed operations, and we cannot predict the impact that future regulations may have on us.

We are implementing a new, untested, and evolving business model and it is unclear how existing and/or future laws and regulations currently apply or will apply to our business model. Local, state and federal laws and regulations applicable to medical marijuana are broad in scope and subject to changes and evolving interpretations, which could require us to incur substantial costs associated with compliance or alter our business plan. In addition, violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our operations. In addition, it is possible that regulations may be enacted in the future that will be directly applicable to our proposed business. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can we determine what effect additional governmental regulations, including criminal regulations, or administrative policies and procedures, when and if promulgated, could have on our business.

Our ability to grow and compete in the future will be adversely affected if adequate capital is not available to us or not available on terms favorable to us.

We are not currently profitable, there is no guarantee that we will ever become profitable, and if we do become profitable, this is no guarantee that we will remain profitable. We may need to raise additional financing to support our operations and such financing(s) will be dilutive to our stockholders. There is no guarantee that we will be able to raise such additional financing on terms acceptable to us or our stockholders, or even to raise such additional financing at all.

The ability of our business to grow and compete depends on the availability of adequate capital, which in turn depends in large part on our cash flow from operations and the availability of equity and debt financing. We cannot assure you that our cash flow from operations will be sufficient or that we will be able to obtain equity or debt financing on acceptable terms or at all to implement our growth strategy. As a result, we cannot assure you that adequate capital will be available to finance our current growth plans, take advantage of

business opportunities or respond to competitive pressures, any of which could harm our business.

We are operating in a new and unproven market*.*

Our potential for future profitability must be considered in light of the risks, uncertainties and difficulties encountered by companies that are in new and rapidly evolving markets and continuing to innovate with new and unproven technologies or services, as well as undergoing significant change. If we fail to adapt or innovate as these changes occur, our shareholders could face the risk of losing their entire investment.

Our officers, directors and shareholders are creating companies that will operate as producers and sellers of marijuana, and we intend to lease our properties to them and may be required to purchase those operations from them.

Our operating leases will be to operating companies incorporated and operated by certain of our founding officers, directors and shareholders. Since we are not seeking unrelated third-party tenants, the rent we receive may not necessarily be as much as that we could obtain by leasing those properties to unrelated third parties. In addition, as part of agreements between the Company and certain third parties, should the Company be successful in raising funding and should the US Federal Government amend the Controlled Substances Act to remove marijuana as a Schedule I drug, we will be required to purchase the operations of the tenants, regardless of their profitability or our profitability. This could result in material cash flow problems for us in the event that those underlying operating companies are not profitable or properly managed.

Our operations may also be subject to municipal zoning restrictions.

Certain municipalities have placed zoning restrictions on where cannabis retailers, producers, and processors may be located. Restrictions on our ability to obtain the best growing, processing or retail locations could have significant impacts on our ability to meet our financial and growth objectives.

We may not be successful in competing with current and future participants in our industry*.*

We may not be successful in competing against current and future participants in this market sector. Some of our competitors may have longer operating histories, possess greater industry and brand name recognition, and/or have significantly greater financial, technical, and marketing resources than we do.

Unfavorable media coverage could affect our business.

We may receive a high degree of media coverage, both in the U.S. and around the world. Unfavorable publicity regarding our Company, our business model, our industry, our directors, officers and senior management team, our product or service offerings, our litigation or regulatory activities, or our customers could adversely affect our reputation. Such negative publicity could materially and adversely affect our operational and financial conditions, prospects, and results from operations.

Our operating results and financials could be materially affected by the operations of our tenants and occupants.

If the tenants of any property we acquire or lease default under their leases or subleases, do not renew or extend their leases or subleases, or terminate their leases or subleases, or if issues arise with respect to the permissibility of certain uses of a property we acquired or leased, the operating results and financial viability of that property and our Company could be substantially and materially affected. There is a risk of seizure of property by the federal or state governments if tenants are deemed to be operating outside of laws and or regulations.

We may face difficulty maintaining and attracting tenants.

We currently intend to hold properties in fee simple, or to lease them, and to lease or sublease them to tenants. There can be no assurance that we will be able to lease or sublease enough properties to meet our financial goals. It may be necessary to make substantial concessions in terms of rent and lease incentives, and construct unplanned tenant improvements to attract and retain tenants. If these expenditures and concessions are necessary and exceed the funds reserved out of our capital resources, our financial performance may be adversely affected.

There can be no assurance that cash flow or profits will be generated by any of our properties.

The lack of cash flow or profits would negatively affect our ability to meet our goals. Our management is not obligated to provide shareholders with a guarantee against a loss on their investment or negative cash flows and our management does not have, nor do they intend to provide, such a guarantee.

Unfavorable changes in market and economic conditions could hurt property occupancy or rental rates.

The demand, price and rents for rental real property have historically been positively and negatively affected by the sector's economic performance, any decrease in which could result in the market for real estate being adversely impacted.

Risks Related to Ownership of the Company's Common Stock

There is no public trading market for our common stock and you may not be able to resell our common stock.

There is no established public trading market for our securities and our shares are not and have not been quoted on any exchange or quotation system. We cannot assure you that any market maker will agree to make a market in our common stock. In the absence of a trading market, you may not be able to liquidate your investment, which could result in the loss of your investment.

Future issuances of our common stock could dilute the interests of existing shareholders.

We may issue additional shares of our common stock in the future. The issuance of a substantial amount of common stock could have the effect of substantially diluting the interests of our shareholders. In addition, the sale of a substantial amount of common stock in the public market, either in the initial issuance or in a subsequent resale could have an adverse effect on the market price of our common stock.

Should we be required to purchase the related party marijuana businesses of certain shareholders as part of certain agreements with third parties, you may incur substantial dilution

As part of certain agreements we entered into with our founding shareholders, in the event we meet certain funding milestones and the US Federal Government removes marijuana as a Schedule I drug and allows us to operate marijuana-related businesses within all applicable law, we are required to purchase the marijuana business operations of certain shareholders in consideration for that number of shares of our common stock resulting in the owners of the operating companies holding, in the aggregate, 75% of issued and outstanding shares of our common stock, without consideration of the actual net worth or operating performance of those operating companies.

We have no plans to pay dividends.

To date, we have paid no cash dividends on our common stock. For the foreseeable future, earnings generated from our operations will be retained for use in our business and not to pay dividends.

If our common stock is ultimately listed on a public exchange, application of the Securities and Exchange Commission "penny stock" rules could limit trading activity in the market, and our shareholders may find it more difficult to sell their stock.

If our common stock is ultimately listed on a public exchange, it is likely that such shares will be trading for some period at less than $5.00 per share and are therefore will be subject to the

U.S. Securities and Exchange Commission **("SEC")** penny stock rules. Penny stocks generally are equity securities with a price of less than $5.00. Penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The broker-dealer must also make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These requirements may have the effect of reducing the level of trading activity, if any, in the secondary market for a security that becomes subject to the penny stock rules. These requirements may restrict the ability of broker-dealers to sell our common stock and may affect your ability to resell your shares of our common stock.

We have yet to establish internal control over our financial reporting which will be required if and when we become a reporting issuer.

If we become a non-venture issuer (as such term is defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*) or a public company in the U.S., we will be required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. At such time, we will be required to assess the effectiveness of our internal control over financial reporting on a periodic basis. We are in the process of designing, implementing, and documenting the internal control over financial reporting required to comply with this obligation, which process is time consuming, costly and complicated. Because of our limited resources, we may be unable to remediate the identified material weaknesses in a timely manner, or additional control deficiencies may be identified. As a result, we may be unable to report our financial results accurately on a timely basis or help prevent fraud, which could cause our reported financial results to be materially misstated, result in the loss of investor confidence and cause the market price of our securities to decline.

There may be limitations on the effectiveness of our internal controls, and a failure of our control systems to prevent error or fraud may materially harm our Company.

We do not expect that internal control over financial accounting and disclosure, even if timely and well established, will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Failure of our control systems to prevent error or fraud could materially adversely affect our business.

We have not implemented various voluntary corporate governance measures, in the absence of which, stockholders may have more limited protections against interested director transactions, conflicts of interest and similar matters.

Recent U.S. Federal legislation, including the Sarbanes-Oxley Act of 2002 (the **"SOX Act"),** has resulted in the adoption of various corporate governance measures designed to promote the integrity of the corporate management and the securities markets. Some of these measures have been adopted in response to legal requirements. Others have been adopted by companies in response to the requirements of national securities exchanges, such as the NYSE, or the Nasdaq Stock Market, on which their securities are listed. Among the corporate governance measures that are required under the rules of national securities exchanges and Nasdaq are those that address board of directors' independence, audit committee oversight, and the adoption of a code of ethics.

We have not yet adopted many of these other corporate governance measures and, since our securities are not listed on a national securities exchange or Nasdaq, we are not required to do so. It is possible that if we were to adopt some or all of these corporate governance measures, stockholders would benefit from somewhat greater assurances that internal corporate decisions were being made by disinterested directors and that policies had been implemented to define responsible conduct.

We will incur increased costs as a reporting issuer which may affect our profitability.

We currently operate as a private company in Nevada, although we are subject to applicable Alberta Canada securities laws relating to public disclosure as a result of our acquisition of Patch International, Inc. Public disclosure generally involves a substantial expenditure of financial resources. Compliance with these rules and regulations will significantly increase our legal and financial compliance costs and some activities will become more time-consuming and costly. Management may need to increase compensation for senior executive officers, engage additional senior financial officers who are able to adopt financial reporting and control procedures, allocate a budget for an investor and public relations program, and increase our financial and accounting staff in order to meet the demands and financial reporting requirements as a public reporting company. Such additional personnel, public relations, reporting and compliance costs may negatively impact our financial results.

In the event a market develops for our common stock, the trading may be highly volatile.

In the event a market develops for our common stock, the market price of our common stock may be highly volatile, as is the stock market in general, and the market for OTC Market quoted stocks in particular. Some of the factors that may materially affect the market price of our common stock are beyond our control, such as changes in financial estimates by industry and securities analysts, conditions or trends in the industry in which we operate or sales of our common stock. These factors may materially adversely affect the market price of our common stock, regardless of our performance. In addition, the public stock markets have experienced

extreme price and trading volume volatility. This volatility has significantly affected the market prices of securities of many companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

When we become a reporting issuer, compliance requirements may make it more difficult to attract and retain officers and directors.

Applicable Canadian securities laws, the SOX Act and rules subsequently implemented by the SEC have required changes in corporate governance practices of public companies. Upon the closing of the Arrangement, we expect these rules and regulations to increase our compliance costs and to make certain activities more time consuming and costly. We also expect that these rules and regulations may make it more difficult and expensive for us to obtain director and officer liability insurance in the future and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers.

Because certain of our directors and executive officers are significant shareholders of the Company, they can exert significant control over our business and affairs and have actual or potential interests that may depart from our other shareholders.

Our directors and executive officers own, collectively and beneficially, a significant percentage of the outstanding shares of our common stock. Additionally, the holdings of our directors and executive officers may increase in the future upon vesting or other maturation of exercise rights under any of the options or warrants they may hold or in the future be granted or if they otherwise acquire additional shares of our common stock. The interests of such persons may differ from the interests of our other shareholders. As a result, in addition to their board seats and offices, such persons will have significant influence over and control all corporate actions requiring shareholder approval, irrespective of how the Company's other shareholders, may vote, including the following actions:

- to elect or defeat the election of our directors;
- to amend or prevent amendment of our Articles of Incorporation or by-laws;
- to effect or prevent a merger, sale of assets or other corporate transaction; and
- to control the outcome of any other matter submitted to our shareholders for vote.

Such persons' stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company, which in turn could reduce our stock price or prevent our shareholders from realizing a premium over our stock price.

Our officers and directors have limited liability, and we are required in certain instances to indemnify our officers and directors for breaches of their fiduciary duties.

We have adopted provisions in our by-laws and intend to adopt provisions in our Articles of Incorporation, which limit the liability of our officers and directors and provide for indemnification by us of our officers and directors to the full extent permitted by Nevada corporate law. Such provisions substantially limit our shareholders' ability to hold officers and directors liable for breaches of fiduciary duty, and may require us to indemnify our officers and directors.

As a U.S "emerging growth company" under applicable law, we may be subject to reduced disclosure requirements, which could leave our stockholders without information or rights available to stockholders of more mature companies.

For as long as we remain an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies", including but not limited to:

- not being required to comply with the auditor attestation requirements of Section 404 of the SOX Act;

- taking advantage of extensions of time to comply with certain new or revised financial accounting standards;

- being permitted to comply with reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; and

- being exempt from the requirement to hold a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We expect to take advantage of these reporting exemptions until we are no longer an emerging growth company. We will remain an "emerging growth company" for up to five years, although if the market value of the shares of our common stock that are held by non-affiliates exceed $700 million as of any June 30 before that time, we would cease to be an "emerging growth company" as of the following December 31. Because of the lessened regulatory requirements discussed above, our stockholders will be left without information or rights available to stockholders of more mature companies.

Future sales of our common stock may result in a decrease in the market price of our common stock, even if our business is doing well.

The market price of our common stock, when and if established, could drop due to sales of a large number of shares of our common stock in the market or the perception that such sales could occur. This could make it more difficult to raise funds through future offerings of common stock.

We have conducted no market research or identification of business opportunities, which may affect our ability to implement our business plan.

We have not conducted market research concerning prospective business opportunities, nor have others made the results of such market research available to us. Therefore, we have no assurances that market demand exists for our business consistent with our business plan. Our business is subject to all of the risks associated with an early stage business. As such, there is a risk that conventional private or public offerings of securities or conventional bank financing will not be available. There is no assurance that we will be able to pursue our business plan on terms favorable to us.

If we do not use our funds in an efficient manner, our business may suffer.

Our board of directors will retain broad discretion as to the use of Company funds based upon market and business conditions. Accordingly, our shareholders will not have the opportunity to evaluate the economic, financial and other relevant information that we may consider in the application of the net proceeds. We cannot guarantee that we will make the most efficient use of the net proceeds or that you will agree with the way in which such net proceeds are used. Our failure to apply these funds effectively could have a material adverse effect on our business, results of operations and financial condition.

No legal or tax advice.

A holding in our common stock may involve certain material federal and state tax consequences. Shareholders should not rely on the Company for legal, tax, or business advice. Shareholders are encouraged to consult with their respective legal counsel, accountant or business adviser as to legal, tax and related matters concerning their investment in the Company.

Risks Related to the Marijuana Industry
(Applicable to our tenants, which could affect the financial viability of certain of our properties)

The marijuana business is illegal under federal law.

Producing, manufacturing, processing, possessing, distributing, selling, and using marijuana is a U.S. federal crime. Under the Federal Controlled Substances Act of 1970 (the "**Federal CSA**"), marijuana is classified as a Schedule I drug, which is defined as having a high potential for abuse and no currently accepted medical use. Owning shares of our common stock may: (a) expose you personally to criminal liability under federal law, resulting in monetary fines and jail time; and (b) expose any real and personal property used in connection with our business to seizure and forfeiture to the federal government.

Producers will not be able to deduct many normal business expenses.

Under Section 280E of the U.S. Internal Revenue Code ("**Section 280E**"), many normal business expenses incurred in the trafficking of marijuana and its derivatives are not deductible in calculating Federal and Oregon income tax liability. A result of Section 280E is that an otherwise profitable business may in fact operate at a loss, after taking into account its income tax expenses. The application of Section 280E likely will have a material adverse effect on producers.

The implementation of the Control and Regulation of Marijuana Act is uncertain.

On June 30, 2016, the Oregon Liquor Control Commission ("**OLCC**") adopted rules to implement the Control and Regulation of Marijuana Act, which governs Oregon's recreational marijuana market. The OLCC's rules are unclear on a number of matters, and the OLCC likely will have to interpret and further amend the rules. Any interpretations of the rules by the OLCC, any additional rules adopted by the OLCC, and any additional statutes passes by the Oregon legislature could have a material adverse effect on producers.

Customers for the marijuana business are limited.

The customers of the marijuana production business will be limited to other Oregon-licensed marijuana businesses. Producers may not sell their products to any business or person located outside the State of Oregon.

Producers have numerous competitors.

The marijuana production business is not, by itself, unique. Producers have numerous competitors throughout the State of Oregon utilizing a substantially similar business model. Excessive competition may impact producer sales and may cause prices to be reduced.

Local laws and ordinances could restrict producer business activity.

Although legal under Oregon state law, local governments have the ability to limit, restrict, and ban medical marijuana businesses from operating within their jurisdiction. Land use, zoning, local ordinances, and similar laws could be adopted or changed, and have a material adverse effect on our business.

Producers and retailers will not be able to register any federal trademarks for their marijuana products.

Because producing, manufacturing, processing, possessing, distributing, selling, and using marijuana is a crime under the U.S. Federal CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies marijuana products. As a result, producers and retailers likely will be unable to protect their marijuana product trademarks beyond the geographic areas in which they conduct business. The use of producer or retailer trademarks outside the State of Oregon by one or more other persons could have a material adverse effect on producer or retailer businesses.

Laws will continue to change rapidly for the foreseeable future.

Local, state and federal laws and enforcement policies concerning marijuana-related conduct are changing rapidly and will continue to do so for the foreseeable future. Changes in applicable law are unpredictable and could have a material adverse effect on the entire industry.

Risks Related to the Marijuana Industry
(Applicable to Landlords of Marijuana Producers)

Our tenant's success depends on its ability to obtain a marijuana production license from the Oregon Liquor Control Commission.

Our tenant's success depends on its ability to obtain a marijuana production license from the OLCC in the near future. If our tenant fails to obtain a marijuana production license from the OLCC, its business will be limited to Oregon's medical marijuana market only, which likely will not be a viable long-term business model. Our tenant's failure to obtain a marijuana production license from the OLCC will have a material adverse effect on our tenant's business, and therefore us.

Our tenant's business is highly regulated.

Our tenant's business and products are and will continue to be regulated as applicable laws continue to change and develop. Regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that our tenant will receive the requisite licenses, permits, and approvals to operate its business.

Further we cannot predict what kind of regulatory requirements our tenant's business will be subject to in the future.

Our tenants have numerous competitors.

Our tenants' marijuana production business is not, by itself, unique. Our tenants have numerous competitors throughout the State of Oregon utilizing a substantially similar business model. Excessive competition may have a material adverse effect on our tenants' business, and therefore us.

Laws will continue to change rapidly for the foreseeable future.

Local, state and federal laws and enforcement policies concerning marijuana-related conduct are changing rapidly and will continue to do so for the foreseeable future. Changes in applicable law are unpredictable and could have a material adverse effect on our tenant's business, and therefore us.

Miscellaneous Risk Factors

Forward-looking statements made by the Company may prove to be untrue or unachievable.

This Management's Discussion and Analysis contains "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. These statements relate to future events or to Stem's future operating or financial performance and involve known and unknown risks, uncertainties and other factors which may cause Stem's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. Certain or all of these forward-looking statements may prove to be untrue or may never be accomplished or achieved. If such were to occur, the operations and financial prospects of the Company could be materially impaired, which could have a significant detrimental impact your investment in the Company.

Any financial projections that may have been disclosed (in writing, orally, or otherwise) were for illustrative purposes only.

Any financial projections were based on a variety of estimates and assumptions which may not be realized, and are inherently subject to significant business, economic, legal, regulatory, and competitive uncertainties, most of which are beyond our control. There can be no assurance that any projections that may have been disclosed to you will be realized, and actual results may different materially from such projections.

Our success depends on the skills and expertise of our management and our tenants.

There is no guarantee that they will manage our business successfully and that our tenants will be successful in their businesses. We do not have an employment agreement with our management, nor do we carry life or disability insurance on them. The loss of the services of any member of our management, for any reason, or the failure of our tenants to properly manage their businesses, may have a material adverse effect on your investment in the Company.

Our management may have a conflict of interest with us.

Each of our managers is a significant shareholder, director, and officer of the Company and is also a shareholder of OpCo Holdings, Inc. ("**OpCo**") and certain of its subsidiaries. Consequently, they not only have substantial control of the management of the Company, but are also subject to potential conflicts of interest as a result of their interests in OpCo and its operating subsidiaries.

The real property that we intend to purchase has not been appraised.

The sole assets of the Company will be the real property which we intend to acquire. The purchase price for these properties is not based on a professional appraisal. No outside party, including our attorneys and financial advisors, has made any representations as to the fairness of the purchase price of these properties.

The valuation of the Company and the common stock is not based on a professional appraisal.

The valuation of the Company and the common stock is not based on a professional or reliable fair market value estimation or appraisal. No outside party, including our attorneys and financial advisors, has made any representations as to the fairness of the valuation of the Company's common stock, the Company, or its business. Additionally, there is no guarantee that the Company will be able to recover funds advanced for the improvement of real properties it owns or leases.

CAUTION REGARDING ESTIMATES

The reader is further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Estimating provisions is also critical to several accounting estimates and requires judgments and decisions based upon available data. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or to future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of the words “anticipate”, “plan”, “continue”, “estimate”, “expect”, “will”, “project”, “should”, “believe”, “predict”, “targeting”, “seek”, “could”, “potential” and similar words. Such forward-looking statements are based on certain assumptions and include, but are not limited to: statements with respect to future capital expenditures, including the amount and nature thereof; the demand for cannabis-related products and real estate, real estate values and valuations; other development trends of the cannabis and real estate industries; business strategy; expansion and growth of the Company's business and operations; and other such matters.

The Company believes the expectations reflected in the forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct.

Forward-looking statements included herein should not be unduly relied upon. These statements speak only as of the date of this document. The Company does not undertake any obligation to publicly update or revise any forward-looking statements unless required by applicable laws. Any forward-looking information contained herein is expressly qualified by this cautionary statement. The forward-looking statements in this document are provided for the limited purpose of enabling current and potential investors to evaluate an investment in the Company. Readers are cautioned that such statements may not be appropriate, and should not be used for other purposes.