Stem Holdings, Inc.

Reports and financial statements

Period from June 7, 2016 (date of inception) to September 30, 2016, and period from October 1, 2016 to December 31, 2016

Stem Holdings, Inc.
Statements of Financial Position
(All amounts are in USD, unless otherwise stated)

	Notes	As at December 31, 2016 (Unaudited)	As at September 30, 2016 (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents		$ 897,709	$ 798,198
Notes recievable	12	99,000	-
Prepaid expenses and deposits		108,000	31,250
Subscriptions receivable	6		1,170,000
Total current assets		1,104,709	1,999,448
Property and equipment	13	972,634	-
Other Assets:			
Due from affiliates		20,412	-
Software		2,775	-
Total other assets		23,187	-
Total Assets		$ 2,100,530	$ 1,999,448
LIABILITIES AND SHAREHOLDERS' EQUITY			
Total Liabilities		11,275	-
Shareholders' Equity			
Share capital	7	2,722,249	2,492,250
Subscription receivable	7	(400,000)	(400,000)
Accumulated deficit		(232,994)	(92,802)
Total equity		2,089,255	1,999,448
Total Liabilities and Shareholders' Equity		$ 2,100,530	$ 1,999,448
Commitments	11		

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

Stem Holdings, Inc.
Statements of Loss and Comprehensive Loss
(All amounts are in USD, unless otherwise stated)

	Notes	Period from October 1, 2016 to December 31, 2016 (Unaudited)	Period from June 7, 2016 to September 30, 2016 (Audited)
Revenues		$ -	$ -
General and administration	9	(145,296)	92,802
Operating loss		(145,296)	(92,802)
Net loss before income taxes		(145,296)	(92,802)
Provision for income taxes	10	-	-
Net loss and comprehensive loss for the period		$ (145,296)	$ (92,802)
Basic and diluted loss per common share	8	$ (0.03)	$ (0.03)

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

Stem Holdings, Inc.
Statements of cash flows
(All amounts are in USD, unless otherwise stated)

	Period from October 1, 2016 to December 31, 2016 (Unaudited)	Period from June 7, 2016 to September 30, 2016 (Audited)
Operating Activities:		
Net loss for the period	$ (145,296)	$ (92,802)
(Increase) decrease in operating assets:		
Increase in notes receivable	(99,000)	-
Decrease in subscription receivable	1,170,000	-
Decrease in accounts payable	(42,534)	-
(Increse) in prepaid expenses and deposits	(87,000)	(31,250)
Net Cash Flows Used In Operating Activities	796,170	(124,052)
Investing Activities:		
Purchases of property and equipment	(934,159)	-
Net cash used in investing activities	(934,159)	-
Financing Activities:		
Proceeds from issuance of common shares	237,500	922,250
Net Cash Provided By Financing Activities	237,500	922,250
Net increase in cash and cash equivalents	99,511	798,198
Cash and cash equivalents at beginning of period	798,198	-
Cash and cash equivalents at end of period	$ 897,709	$ 798,198
Supplemental cash flow information		
Cash paid for interest	$	$
Cash paid for taxes	$	$

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

Stem Holdings, Inc.
Notes to the Financial Statements
Period ended September 30, 2016 and quarter ended December 31, 2016

1. Incorporation and operations

Stem Holdings, Inc. (the "Company") is a Nevada corporation incorporated on June 7, 2016. Its principal office is at 20283 State Road 7, Boca Raton, FL, 33498 USA. The Company intends to purchase, improve, and lease properties.

The financial statements of the Company for the period ended September 30, 2016 and the quarter ended December 31, 2016 were authorized for issuance in accordance with a resolution of the Board of Directors on March 1, 2017.

2. Basis of preparation

Statement of compliance
The Company has prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement
These financial statements are stated in United States dollars and were prepared on a going concern basis, under the historical cost convention.

Use of estimates and judgments
The preparation of the 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. Actual results may differ from these estimates. 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.

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 and in any future periods affected.

Critical judgments in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized and disclosed in the financial statements.

- Provisions:

  The Company is required to exercise judgment in assessing whether the criterion for recognition of a provision has been met.

Functional and presentation currency
These financial statements are presented in United States dollars, which is the Company's functional currency.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Cash and cash equivalents
Cash and cash equivalents include short-term investments with original maturities of three months or less and are recorded at cost, which approximates fair market value given the short-term nature.

Leases
Leases, on terms for which the Company assumes substantially all the risks and rewards of ownership, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Company's statement of financial position. Operating lease payments are recognized in general and administrative expenses in profit or loss on a straight-line basis.

Taxes
Income tax expense is comprised of both current and deferred income taxes. Income tax expense is recognized in the statement of income and comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Share capital
Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non - derivative financial instruments are recognized initially at fair value, plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent to initial recognition, financial instruments are measured as described below:

- **Loans and receivables**

  Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an activemarket. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Company's receivables comprise other receivables and cash in the statement of financial position.

  Loans and receivables are initially recognized at fair value plus transaction costs and, subsequently, carried at amortized cost using the effective interest method.

  A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in profit or loss. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables.

- **Other financial liabilities**

  Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Liabilities in this category include bank indebtedness, accounts payable and accrued liabilities, and long- term debt.

  Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

Fair value of financial instruments

For financial instruments that are traded in active markets at each reporting date, the fair value is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market at each reporting date, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis, or other valuation models.

Earnings per share
The Company presents basic and diluted per share amounts ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period.

4. Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the periods ended December 31, 2016, and have not been applied in preparing these financial statements. The following pronouncements are considered by the Company to be the most significant of several that may affect the financial statements:

IFRS 9 "Financial Instruments" was issued in November 2009 as the first step in the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets that have a proposed implementation date of January 1, 2018. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment and hedge accounting. The Company does not expect this standard to have a significant effect on the financial statements.

Amendments to IAS 36 "Impairment of Assets" addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The Company does not expect the amendments to IAS 36 to have a significant effect on the financial statements.

IFRS 15 "Revenue from Contracts with Customers" was issued to replace IAS 18 "Revenue", which establishes a new five-step control-based revenue recognition model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 is not expected to have a significant impact on the financial statements.

IFRS 16 "Leases" was issued to introduce a single lease accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company intends to adopt the standard for the fiscal year beginning July 1, 2019. The extent of the impact of the adoption of the standard has not yet been determined.

5. Financial risk management overview

The Company has exposure to the following risks:

- Liquidity risk

- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, and processes for measuring and managing risk and the Company's management of capital.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Market risk

Market risk is the risk that changes in market prices such as interest rates or foreign exchange rates that will affect the Company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

The Company is exposed to interest rate risk to the extent that cash held in interest bearing accounts are at floating or short term rate of interest. The Company does not have any financial or interest rate contracts in place as of December 31, 2016.

6. Subscriptions receivable

On August 30, 2016, the Company issued 166,666 shares of common stock, to be held in escrow, pending the receipt of $400,000. According to the securities purchase agreement with the shareholder, the payment is to be received and the common shares are to be released from escrow on or before March 15, 2017.

7. Shareholders' capital

Authorized shares

The authorized share capital of the Company consists of:

- 50,000,000 shares of Series A Preferred Shares with a par value of $0.001 per share.
- 50,000,000 shares of Series B Preferred Shares with a par value of $0.001 per share.
- 100,000,000 shares of common stock with a par value of $0.001 per share.

Issued and outstanding

Preferred shares

The Company does not have any preferred shares issued and outstanding.

Common shares

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

	December 31, 2016		September 30, 2016	
	Number of shares		Number of shares	
Balance, beginning of period	4,734,163	$ 2,492,250	2,750,000	$ 2,750
Common shares issued under	60,000	229,999	1,817,497	2,089,500

private placements				
Common shares issued under a private placement, for a stock subscription receivable		-	166,666	400,000
Balance, end of period	4,794,163	$ 2,722,249	4,734,163 $	2,492,250

The Company issued share capital as of December 31, 2016, and September 30, of $2,722,249 and $2,492,250, respectively, by way of non-brokered private placements, as follows:

- On inception (June 7, 2016), 2,750,000 common shares at $0.001 per share to founders of the Company for $2,750.
- During July – August 12, 2016, 1,010,000 common shares at $0.15 per share to unaffiliated investors for $151,500.
- During August 25 – September 30, 2016, 974,163 common shares at $2.40 per share to unaffiliated investors for $2,338,000.
- During October 1 – December 31, 2016, 60,000 common shares at $2.40 per share to unaffiliated investors for $229,999.

8. Earnings per share

The following summarizes the weighted average common shares used in calculating per share amounts:

	October 1, 2016 to December 31, 2016	June 7, 2016 to September 30, 2016
Net loss for the period	$ (145,296)	$ (92,802)
Weighted average shares:		
Basic	4,764,163	2,684,936
Diluted	4,764,163	2,684,936
Basic and diluted loss per common share	$ (0.03)	$ (0.03)

The Company has no potentially dilutive securities, such as options or warrants, currently issued and outstanding.

9. General and administrative expenses

	October 1, 2016 to December 31, 2016	June 7, 2016 to September 30, 2016
Professional fees	$ 64,970	60,412
Rent	10,348	18,750
Travel expenses	14,479	12,565
Office expenses	55,378	980
Bank charges	121	95
	$ 145,296	$ 92,802

10. Income taxes

The major components of income tax expense for the quarter ended December 31, 2016 are as follows:

		As at December 31, 2016
Net loss for the period	$	(145,296)
Expected income tax recovery	$	(49,400)
Change in unrecognized tax asset		49,400
	$	-

The Company's effective tax rate for the period ended December 31, 2016 was 34%. The Company records a valuation allowance to reduce the deferred income tax assets to the amount that is more likely than not to be realized. In making such determinations, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. As a result, there are no income tax benefits reflected in the statement of operations to offset pre-tax losses.

At December 31, 2016, the Company had net operating loss ("NOL") carry forwards aggregating approximately $238,098 which, if not used, expire in 2036. The utilization of these NOL may become subject to limitations based on past and future changes in ownership of the Company pursuant to Internal Revenue Code Section 382.

11. Commitments

The Company leases premises in the United States. The future minimum lease payments are as follows:

For the year ending December 31,		
2017	$	77,154
2018		89,667
2019		91,402
2020		93,195
Thereafter		612,098
	$	963,516

12. Notes Receivable

On October 28, 2016, the Company loaned $100,000 to Jim Murphy, Travis MacKenzie and James Orpeza, shareholders of the Company, under a promissory note (the "Note") due March 30, 2017 which bears interest at rate of 12% per annum. The Note provides for monthly payments in the amount of $1,000 commencing December 1, 2016 until the Note is fully paid. The Note is secured by a pledge of 50,000 shares of Company common stock owned by the debtors.

13. Property and equipment

On November 1, 2016, the Company acquired certain real property located at 1027 Willamette Street, Eugene, OR 97401 (the "Property") for a total cash purchase price of $900,000. In connection with the purchase of the Property, the Company was credited $5,500 for a deposit it had made on account of the Property acquisition on October 4, 2016. In addition to the purchase price, the Company also paid $7,493.98 in closing costs related to the Property acquisition.

14. 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 is considered a dormant entity. In order to close the transaction, Patch was required to submit for approval to certain Canadian government courts (which was granted on January 20, 2017), hold a general meeting of its shareholders and have the shareholders vote to approve the merger (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 23, 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 merger. Under applicable Canadian law, the Company will be required to purchase those shares after negotiations on price have occurred.

The Company has completed the lease of the 42nd Street 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.

In November 2016, the Company entered into a contract with an unaffiliated third party to purchase the real property associated with a retail cannabis facility located at 7827 SE Powell Blvd., Portland, Oregon. This transaction was completed on February 6, 2017. The purchase price was $650,000 plus closing costs.