Stem Holdings, Inc.

Statements of cash flows

(All amounts are in USD, unless otherwise stated)

		Period from October 1, 2016 to March 31, 2017		Period from June 7, 2016 to September 30, 2016
		(Unaudited)		(Audited)
Operating Activities:				
Net loss for the period	$	(881,914)	$	(92,802)
(Increase) decrease in operating assets:				
Depreciation and amortization		40,381		-
Stock-based compensation		361,986		-
Decrease in accounts payable		16,378		-
(Increase) in prepaid expenses and deposits		(54,453)		(31,250)
Net Cash Flows Used In Operating Activities		(517,622)		(124,052)
Investing Activities:				
Purchases of property and equipment		(1,665,443)		-
Intangible property expenditures		(28,219)		-
Project cost expenditures		(88,088)		-
Advances to related entities, net of repayments		(208,001)		-
Deposits for leasehold improvements		(128,476)		-
Net cash used in investing activities		(2,118,227)		-
Financing Activities:				
Proceeds from issuance of common shares		3,880,103		922,250
Net Cash Provided By Financing Activities		3,880,103		922,250
Net increase in cash and cash equivalents		1,244,254		798,198
Cash and cash equivalents at beginning of period		798,198		-
Cash and cash equivalents at end of period	$	2,042,452	$	798,198
Supplemental cash flow information				
Cash paid for interest	$		$	
Cash paid for taxes	$		$	
Non-cash supplemental information				
Insurance financing for note payable	$	213,083	$	
Purchase of real estate with seller financing	$	304,263	$	

Project costs transferred to property, plant and equipment	$	41,250	$	

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 March 31, 2017 (Unaudited)	Period from June 7, 2016 to September 30, 2016 (Audited)
Revenues		$ -	$ -
General and administration	9	886,969	92,802
Operating loss		886,969	(92,802)
Net loss before income taxes		886,969	(92,802)
Provision for income taxes	10	-	-
Net loss and comprehensive loss for the period		$ 886,969	$ (92,802)
Basic and diluted loss per common share	8	$ (0.18)	$ (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 March 31, 2017		Period from June 7, 2016 to September 30, 2016
		(Unaudited)		(Audited)
Operating Activities:				
Net loss for the period	$	(881,914)	$	(92,802)
(Increase) decrease in operating assets:				
Depreciation and amortization		40,381		-
Stock-based compensation		361,986		-
Decrease in accounts payable		16,378		-
(Increse) in prepaid expenses and deposits		(54,453)		(31,250)
Net Cash Flows Used In Operating Activities		(517,622)		(124,052)
Investing Activities:				
Purchases of property and equipment		(1,665,443)		-
Intangible property expenditures		(28,219)		-
Project cost expenditures		(88,088)		-
Advances to related entities, net of repayments		(208,001)		-
Deposits for leasehold improvements		(128,476)		-
Net cash used in investing activities		(2,118,227)		-
Financing Activities:				
Proceeds from issuance of common shares		3,880,103		922,250
Net Cash Provided By Financing Activities		3,880,103		922,250
Net increase in cash and cash equivalents		1,244,254		798,198
Cash and cash equivalents at beginning of period		798,198		-
Cash and cash equivalents at end of period	$	2,042,452	$	798,198
Supplemental cash flow information				
Cash paid for interest	$		$	
Cash paid for taxes	$		$	
Non-cash supplemental information				
Insurance financing for note payable	$	213,083	$	
Purchase of real estate with seller financing	$	304,263	$	

Project costs transferred to property, plant and equipment	$ 41,250	$

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

1. Incorporation and operations

Stem Holdings, Inc. (the "Company") is a Nevada corporation incorporated on June 7, 2016. The Company purchases, improves, and leases properties for use in the cannabis production, distribution and sales industry beginning in the state of Oregon. In September and October 2016, the Company subleased its first production facility and acquired its first commercial location, respectively. In February 2017 and May 2017, the Company acquired its second commercial location and acquired its second production facility, respectively. The Company will enter into four leases for these properties.

The financial statements of the Company for the period ended September 30, 2016 and for the six months ended March 31, 2017 were authorized for issuance in accordance with a resolution of the Board of Directors on June 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 October 12, 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 March 31, 2017.

6. Subscriptions receivable

During the six months ended March 31, 2017, the Company collected in full its subscription receivable of $1,170,000 for the issuance of 487,500 common shares that was outstanding as of September 30, 2016. This is included in the total above.

On August 30, 2016, the Company received a subscription for $800,000 for the issuance of 333,333 shares and 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 was received and the common shares are to be released from escrow on or before April 15, 2017. On April 7, 2017, the Company and Investor amended the original agreement to reduce the subscription entered into from its original total of $800,000, of which $400,000 was a receivable to $600,000 comprising an aggregate of 250,000 shares of the Company's common stock. The remaining balance of the then updated subscription receivable of $200,000 was satisfied and received in April, 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.

	March 31, 2017		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 private placements	1,225,447	3,064,500	1,817,497	2,089,500
Common shares issued under a private placement, for a stock subscription receivable		-	166,666	400,000
Balance, end of period	5,959,610	$ 5,556,750	4,734,163	$ 2,492,250

The Company issued share capital as of March 31, 2017, and September 30, of $5,556,750 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, 2016 – March 31, 2017, 1,225,447 common shares at $2.40 per share to unaffiliated investors for $3,064,500.

8. Earnings per share

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

	October 1, 2016 to March 31, 2017	June 7, 2016 to September 30, 2016
Net loss for the period	$ (881,914)	$ (92,802)

Weighted average shares:				
Basic		4,901,169		2,684,936
Diluted		4,901,169		2,684,936
Basic and diluted loss per common share	$	(0.18)	$	(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 March 31, 2017		June 7, 2016 to September 30, 2016
Professional fees	$	170,356		60,412
Rent		31,934		18,750
Travel expenses		26,542		12,565
Office expenses		652,616		980
Bank charges		466		95
	$	881,914	$	92,802

10. Income taxes

The major components of income tax expense for the period ended March 31, 2017 are as follows:

		March 31, 2017
Net loss for the period	$	(881,914)
Expected income tax recovery	$	(299,851)
Change in unrecognized tax asset		299,851
	$	-

The Company's effective tax rate for the period ended March 31, 2017 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 March 31, 2017, the Company had net operating loss ("NOL") carry forwards aggregating approximately $299,851 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

In July 2016, the Company entered into a 10-year lease for a commercial building from an unrelated third party in Springfield, Oregon. At the time the original lease was entered into, the Company had expected to close on significant subscriptions from its private placement. However, when those did not immediately materialize, the Company entered into an agreement with the landlord to cancel the lease and in addition, paid the landlord $15,000 not to rent out the property until such time the Company could enter into a new lease. In September 2016, the Company entered into a new 10-year lease with the landlord that commenced in November 2016. The lease requires the Company to pay a base rental fee of $7,033 plus an additional estimated $315 per month in real estate taxes in which the base rental fee escalates each year by approximately 2%. 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 out this space in the near future.

In August 2016, the Company and certain shareholders of the Company entered into a "Multi Party" 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. In September 2016, the Company entered into the lease as more fully described above, and in November 2016, acquired a property after the shareholder that owned the purchase agreement transferred that purchase agreement to the Company, in accordance with the Multi Party agreement (see Note 4). As of the date of these financial statements, the Company has entered into negotiations for the acquisition of the third property in Mulino, Oregon, but as of yet has not exchanged final closing documents, and at this time, is uncertain if or when it will. Should the Company obtain in excess of $10,000,000 through a combination of its private placements and its merger with Patch Holdings, Inc. (see Note 5), it is required to purchase certain real estate properties owned by entities affiliated with certain of its shareholders.

In addition, certain shareholders of the Company have begun organizing entities that will operate directly in the cannabis industry, and the Company intends to offer leases of its properties to these entities in the near future. The Multi Party Agreement also requires that in the event that the US Government amends Title 21 of the United States Code, otherwise known as the Controlled Substances Act, to remove cannabis as a Schedule I drug, and the Company raises more than $10 million in equity and merger funding, the Company is required to enter into agreements to acquire those related entities and issue such equity that the shareholders of the related entities obtain 75% of the then issued and outstanding equity of the Company, regardless of the profitability or financial condition of the related entities at the time of their acquisition.

In February 2017, the Company entered into a 1-year lease for the occupancy of the Stem Holdings, Inc's. corporate office located in Boca Raton, Florida. The lease requires the Company to pay a base rental fee of $785.00 per month. All taxes, maintenance and utilities are included. In addition, the Company also remitted $785 for a security deposit to the landlord.

In February 2017, the Company entered into an advisory agreement with an unrelated third party with a term of 12 months. As part of that agreement, the third party agreed to provide assistance for the Company with respect to eligibility for becoming quoted on the OTCQB/OTCQX and advising and assisting the Company in complying with its ongoing OTCQB/OTCQX disclosure obligation under current federal and state securities laws. These services to the Company are exchanged for a $10,000 upfront payment, and $5,000 payment upon the acceptance on OTCQB/OTCQX.

In the near future, the Company expects to enter into four separate leases with four separate entities related to the Company. The Company expects those leases to have the following common characteristics: 10 year term with the option of the lease to extend for a five year period if not in default, no securities deposit required, double net lease in structure with the Company being responsible for real estate taxes and the leases being responsible for maintenance and insurance and standard yearly rent escalation clauses which at this time the Company believes will be in the neighborhood of 3% yearly. In addition, the Company expects that each lease will have different commencement dates depending on the ability of the Company and the related entity to obtain necessary rights and licenses for the commencement of actual operations by the related entity and for any buildout required by the related entity.

12. Notes Receivable

On October 28, 2016, the Company loaned $100,000 to certain officers and 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 interest payments in the amount of $1,000 commencing December 1, 2016 until the Note is fully paid. On March 15, 2017, an extension was granted through July 1st, 2017 by which the indebtedness in the amount of $100,000 is to be liquidated by four equal monthly installments of $25,000 of which the Company has received the first $25,000 payment under the updated terms as of the date of this filing. The Note is secured by a pledge of 50,000 shares of Company common stock owned by the debtors.

13. Property and equipment

At March 31, 2017 property and equipment consisted of the following:

Signage	$	14,663
Furniture and equipment		62,885
Leasehold improvements		298,000
Architectural and Design		60,351
Buildings		1,574,969
Subtotal		2,010,868
Accumulated depreciation		(39,800)
Property, plant and equipment, net		1,971,068

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 plus closing costs of approximately $918,000.

On February 6, 2017, the Company acquired certain real property located at 7827 SE Powell Blvd, Portland, OR 97206 (the "Property") for a total purchase price plus closing costs of approximately $656,498. As part of the consideration for closing on the property, the Company issued a short term note payable to the seller in the Amount of approximately $304,000. The note is non-interest bearing requires four monthly payments of $75,000 plus a final payment for the remaining amount due immediately thereafter. Due to the short-term nature of the note, the Company has not imputed any interest as it would be immaterial to the results for the period.

Depreciation expense was $39,800 for the period ended March 31, 2017

14. Acquisition of Patch International, Inc.

In November 2016, the Company entered into an agreement to acquire 100% of the issued and outstanding shares of Patch International, Inc. ("Patch"). In order to close the transaction, Patch is required to submit for approval to certain Canadian government courts, hold a general meeting of its shareholders and have the shareholders vote to approve the merger, and certain other customary requirements. As of the time of the agreement, Patch did not have any operations, and is considered a dormant entity. The Company will issue shares of its common stock based on a price of $2.40 per common share, with the number of shares to be issued based on the amount of cash held at the time of closing of the transaction, converted from Canadian dollars into US dollars. In addition, the Company has agreed to issue to Patch shareholders additional shares at the same $2.40 per share in the event that the Company collects on a fully reserved receivable in the amount of $500,000 owed to Patch by a related party. As of the date of the acquisition and of these financial statements, the Company considers the receivable uncollectible (as did Patch, which reserved 100% of the outstanding receivable in its audited financial statements) and does not anticipate issuing additional shares for its collection.

On January 20, 2017, the Patch Shareholders held their general meeting and they voted to be acquired by the Company. On January 23, 2017, the Company issued 1,048,762 of its shares to acquire 100% of the issued and outstanding shares of Patch for consideration in the amount of $2,452,058. 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 Canadian law, the Company committed to purchase these shares for cash consideration in the amount $53,534.53 US dollars. The Company has treated the payment to acquire the dissenter shares as a reduction in the cash acquired.

The Company has not accounted for the acquisition of Patch as a business combination. Because Patch was a dormant entity with its only asset being cash, the acquisition was treated essentially as an acquisition of cash.

15. Stock Purchase Options

During the period ended March 31, 2017, the Company entered into two separate consulting agreements, the first in November 2016, and the second in February 2017, and as part of those agreements agreed to issue a total of 300,000 options to purchase the common stock of the Company, with an exercise price of $2.40 per share and a term of 4 years. Pursuant to the first agreement to issue options to acquire a total of 200,000 of the Company's common stock, options to acquire 100,000 shares vested immediately, options to acquire 50,000 shares that vest 6 months upon a registration statement being declared effective in which the underlying shares to the options are registered and the final option to acquire 50,000 shares vests 1 year after a registration statement is declared effective in which the underlying shares to the option are registered connection with the execution of a consulting agreement. Pursuant to the second consulting agreement, one third of option to acquire the 100,000 options vest immediately and the remaining two thirds vest monthly for the next 30 months which equals 2,222 a month. In total, the

Company recorded stock based compensation expense to the consultants of $361,986 as a result of these options in the six months ended March 31, 2017.

A summary of the change in stock purchase options outstanding for the period ended March 31, 2017 is as follows:

	Options Outstanding		Exercise Price	Remaining Contractual Life (Years)
Balance – September 30, 2016	-		-	-
Options issued	300,000	$	2.40	4
Options expired	-		-	-
Options exercised	-		-	-
Balance – March 31, 2017	300,000	$	2.40	4

The Company valued the options issued using a Black Scholes Merton option pricing model using the following assumptions:

Stock price on date of grant	$	2.40
Risk free rate of interest		5.0%
Expected life of warrant – in months		48
Dividend rate		0
Historic volatility*	160.12	and 223.86

* the Company has used the historic volatility of 5 companies engaged in providing ancillary type services to the cannabis industry as an approximation of its expected volatility.

In the current period, the Company has adjusted its estimate of the compensation cost recorded during the six months ended March 31, 2017 from the warrant issued to the consultant in November 2016. The change was from the Company changing its estimate of the performance commitment required under the contracts. The Company determined that the consultants do in fact need to continue performance under the contract in order for the vesting to occur, not simply the passage of time regardless of performance. Because of this, the compensation expense recorded is now being allocated over the estimate of the vesting for this contract where previously it was recorded entirely upon consummation of the contract.

16. Note Payable

As of February 2017, the Company entered into a 10-month premium finance agreement and disclosure statement in consideration for a one year Directors and Officers insurance policy in the principal amount of $212,500 and an additional service fee, included in the financed principal of $5,700. The note bears an annual interest rate of 5.81% and requires the Company to make monthly payments of $21,820 over the term of the note.

17. Related party transactions

Prior to the formation of the Company, one of its shareholders entered into an agreement to acquire a commercial property located in Eugene Oregon, as more fully described in Note 4, which sale agreement was later transferred to the Company (see Note 9) after its formation. That shareholder and two other shareholders also advanced funds that were applied as escrow deposits upon closing in the amount of $34,750 which has been included as an asset as part of project costs and in current liabilities section of these financial statements as Due to Shareholders. As of March 2017, $29,250 was repaid to one of the shareholders.

During the period ended September 30, 2016, the Company advanced $20,412 in payment of legal fees to entities being formed by certain shareholders of the Company, which is shown as a long term related party receivable in these financial statements. In December, 2016, the Company advanced, on behalf of the related entities, an additional $45,000 in payment of legal fees and a payment of $4,750 for licensing fees, on behalf of related entities, to the Oregon Liquor Control Commission, the entity that regulates cannabis production and distribution in Oregon.

As of December 31, 2016, the Company had advanced to certain related entities approximately $110,000 for their startup. These entities will become lessees to the Company for the buildings and property acquired by the Company (see Note 9) at some time in 2017. However, while the Company has continued to assist the related entities with their startup in the current period, the Company has determined in the period ended March 31, 2017 that the related entities will be unable to reimburse the Company in excess of the amounts recorded as of December 31, 2016 and has therefore as of the current period begun expensing its advances under General & Administrative Expenses – Related Party. The Company has determined that these expenses do not constitute lease incentives and therefore none of these costs are being capitalized.

18. Subsequent events

From April 1st through May 31, 2017, the Company raised gross proceeds of $424,000 from subscriptions entered into by entities after March 31, 2017 from the $2.40 per share PPM. This amount includes the receipt of the amended subscription receivable discussed in Note 7.

On April 15, 2017, the Company entered into a "Contract for Sale" pursuant to which the seller will sell the premises to the Company upon the completion of the Company's due diligences investigations and completion of the closing conditions precedent to each party's obligations under the Contract for Sale. The purchase price is $1,700,000 that will be reduced by a rental credit of $105,000 (as indicated below) which is equivalent to 7 months at $15,000 a month. A note payable will be executed in the amount of $1,200,000 with a maturity two years from closing date. The balance of $395,000 will be paid at closing which shall occur the earlier of (i) the 30th day after the Company obtains Water Rights from Oregon Liquor Control Commission ("OLCC") permits, and (ii) October 5, 2017 , or such other date as the parties may agree upon in writing. In April 2017 in order for the Company to make use of the Premises while completing its due diligence and while the parties complete their conditions to closing under the Contract for Sale, seller and Company have agreed to lease the premises to Company upon the following terms and conditions. The term of the lease commences April 5, 2017 and expires the earlier to occur 1) the termination of the contract of sale by either party thereto in accordance with its terms; 2) the closing date. The lease requires the Company to pay a base rental fee of $15,000 for the first 7 months with no lease deposit required. All taxes (including real estate taxes, and personal property taxes) are the responsibility of the Company.