



**STEM HOLDINGS, INC.**

**LISTING STATEMENT**

**JUNE 26, 2018**

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## 1. General

### *Interpretation*

As used in this listing statement ("**Listing Statement**"), unless the context otherwise indicates, the terms "**Stem**", "**Company**", "**we**", "**us**" and "**our**" mean Stem Holdings, Inc.

For an explanation of certain technical terms and abbreviations used in this Listing Statement and not otherwise defined, see the "*Glossary*", beginning on page 58 of this Listing Statement.

In this Listing Statement, unless otherwise noted, all dollar amounts are in United States dollars.

### *Advisory*

This Listing Statement relates to the securities of an entity that is expected to indirectly derive a portion of its revenues from the cannabis industry in certain U.S. states, which industry is illegal under U.S. federal law. Stem has material ancillary involvement (through the leasing of real estate to cannabis selling or cannabis growing entities) in the cannabis industry in the United States where local state law permits such activities. Currently, the Company is not directly engaged in the manufacture, importation, possession, use, sale or distribution of cannabis in the recreational or medical cannabis marketplace in the United States (or any other jurisdiction).

The cultivation, sale and use of cannabis is illegal under U.S. federal law pursuant to the CSA. Under the CSA, the policies and regulations of the United States Federal Government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and U.S. federal laws made pursuant to it are paramount and in case of conflict between U.S. federal and state law, the U.S. federal law shall apply.

The states of California, Nevada, Massachusetts, Maine, Washington, Oregon, Colorado, Vermont and Alaska, and the District of Columbia, have legalized recreational use of cannabis. Massachusetts and Maine have not yet begun recreational cannabis commercial operations. In early 2018, Vermont became the first state to legalize recreational cannabis by passage in a state legislature, but does not allow commercial sales of recreational cannabis. Although the District of Columbia voters passed a ballot initiative in November 2014, no commercial recreational operations exist because of a prohibition on using funds for regulation within a federal appropriations amendment to local District spending powers. In addition, over half of the states in the United States have enacted legislation to legalize and regulate the sale and use of medical cannabis, while other states have legalized and regulated the sale and use of medical cannabis with strict limits on the levels of THC.

Notwithstanding the permissive regulatory environment of cannabis at the state-level (which is at all times subject to change), cannabis continues to be categorized as a controlled substance under the CSA in the United States and as such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under U.S. federal law. Strict compliance with state laws with respect to cannabis 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. Any such

proceedings brought against the Company may adversely affect the Company's operations and financial performance.

The Company's objective is to capitalize on the opportunities presented as a result of the changing regulatory environment governing the cannabis industry in the United States. Accordingly, there are a number of significant risks associated with the business of the Company. Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law, and the business of the Company may be deemed to be in violation of U.S. federal law.

For the reasons set forth above, the Company's existing interests in the United States cannabis market, and future investments, if any, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in both the United States and Canada. See "*Risk Factors*".

There are a number of risks associated with the business of the Company. See "*Risk Factors*" generally and for the risks related to the United States cannabis industry see "*Risk Factors - Regulatory scrutiny of Company's interests*".

### ***Forward-Looking Statements***

Certain statements contained in this Listing Statement 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", "intend", "may", "predict", "targeting", "seek", "could", "potential" and similar words. Forward-looking statements are necessarily based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as the factors we believe are appropriate. Forward-looking statements in this Listing Statement include but are not limited to statements relating to: future capital expenditures, including the amount and nature thereof; the demand for cannabis-related products; the demand for real estate used for the cultivation and sale of cannabis; real estate values and valuations; other development trends of the cannabis and real estate industries; government regulation of the Company's activities and products, and in the areas of taxation and environmental protection; the Company's expectations regarding federal, provincial and foreign regulatory requirements; business strategy; expansion and growth of the Company's business and operations; general economic, financial market, regulatory and political conditions in which the Company operates; estimates of our expenses, future revenue, capital requirements and our needs for additional financing; the ability of the Company to conduct operations in a safe, efficient and effective manner; the Company's ability to establish and maintain relationships with collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts; 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. In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks outlined herein under the heading "Risk Factors". Should one or more of these risks or

uncertainties, or a risk that is not currently known to us, materialize, actual results may vary materially from those described herein. Investors are cautioned that forward-looking statements are not guarantees of future performance and are inherently uncertain. Accordingly, investors are cautioned not to put undue reliance on forward-looking statements.

These statements speak only as of the date of this Listing Statement. 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 Listing Statement 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.

### ***Financial Information***

The audited financial statements of the Company as at and for the year ended September 30, 2017 and September 30, 2016, together with the independent auditor's report thereon and the notes thereto, have been prepared in accordance with U.S. GAAP and are reported in United States dollars. The unaudited interim financial statements of the Company as at March 31, 2018 and for the three and six months ended March 31, 2018, together with the notes thereto, have been prepared in accordance with U.S. GAAP and are reported in United States dollars. All references to "\$" in this Listing Statement refer to United States dollars.

## **2. Corporate Structure**

### **2.1 – Corporate Name**

The full corporate name of the company is Stem Holdings, Inc. The Company's head office is located at 7777 Glades Road, Suite 203, Boca Raton, FL 33434. The Company's registered office is located at 202 North Carson Street, Carson City, NV 89701-4201.

### **2.2 – Incorporation**

Stem was organized on June 7, 2016 as a State of Nevada corporation under Chapter 78 of the Nevada Revised Statutes. On May 31, 2018, the board of directors of the Company unanimously adopted a resolution seeking shareholder approval to amend the Company's articles of incorporation to increase the number of authorized Common Shares from 100,000,000 to 300,000,000.

### **2.3 – Inter-corporate Relationships**

The Company has no material subsidiaries at this time.

### **2.4 – Fundamental Change**

This item is not applicable.

### **2.5 – Incorporation Outside Canada**

The Company is incorporated as a State of Nevada corporation under Chapter 78 of the NRS. The following is a general description of the material differences between corporate legislation in Nevada and Alberta, Canada. This description is qualified in its entirety by reference to the NRS and the ABCA.

### 2.5.1 *Election and Removal of Directors*

#### *Nevada*

Any director, or the entire Board, may be removed with or without cause, but only by the vote of not less than two thirds of the voting power of the company at a meeting called for that purpose. The directors may fill vacancies on the board.

#### *Alberta, Canada*

Any director, or the entire Board, may be removed with or without cause, but only by a majority vote at a meeting of shareholders called for that purpose. The directors may fill vacancies on the Board subject to the provisions of the articles of the corporation and the ABCA.

### 2.5.2 *Inspection of Stockholders List*

#### *Nevada*

Under Nevada law, any stockholder of record of a corporation who has held his shares for more than six months and stockholders holding at least 5% of all of its outstanding shares, is entitled to inspect, during normal business hours, the company's stock ledger and make extracts therefrom. Nevada law also provides that a Nevada company may condition such inspection right upon delivery of a written affidavit stating that inspection is not desired for any purpose not related to the stockholder's interest in the company.

#### *Alberta, Canada*

Under Alberta law, where a corporation has previously distributed its shares to the public, any person may, on payment of a reasonable fee, require a corporation to furnish a list setting out the names and addresses of the stockholders of a corporation and the number of shares held by each stockholder. In order to obtain such a list, a statutory declaration must also be provided confirming that the list will only be used in connection with an effort to influence voting of the stockholders, an offer to acquire securities of the corporation or any other matter relating to the affairs of the corporation.

### 2.5.3 *Transactions with Officers and Directors*

#### *Nevada*

Under Nevada law, contracts or transactions in which a director or officer is financially interested are not automatically void or voidable if:

- the fact of the common directorship, office or financial interest is known to the board of directors or committee, and the board or committee authorizes, approves or ratifies the contract or transactions in good faith by a vote sufficient for the purpose, without counting the vote or votes of the common or interested director or directors;
- the contract or transaction, in good faith, is ratified or approved by the holders of a majority of the voting power;
- the fact of common directorship, office or financial interest known to the director or officer at the time of the transactions is brought before the board of directors for actions; or

- the contract or transaction is fair to the corporation at the time it is authorized or approved.

Common or interested directors may be counted to determine presence of a quorum and if the votes of the common or interested directors are not counted at the meeting, then a majority of directors may authorize, approve or ratify a contract or transaction.

#### *Alberta, Canada*

Under Alberta law, a material contract or transaction between a corporation and one or more of its directors or officers, or between corporation and another entity in which a director or officer of the corporation is a director or officer, or in which the director or officer has a material interest in, is not invalid nor is the director or officer accountable to the corporation for any profit realized, if the director or officer has disclosed the nature and extent of his interest and the contract or transaction was approved by the directors or the shareholders and it was reasonable and fair to the corporation at the time it was approved. Interested directors may be counted for the purpose of determining a quorum at a meeting of directors called to authorize the contract.

#### *2.5.4 Limitation on Liability of Directors; Indemnification of Officers and Directors*

#### *Nevada*

Nevada law provides for discretionary indemnification made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances. The determination must be made either:

- by the stockholders;
- by the board of directors by majority vote of a quorum consisting of directors who were not parties to the actions, suit or proceeding;
- if a majority vote of a quorum consisting of directors who were not parties to the actions, suit or proceeding so orders, by independent legal counsel in a written opinion; or
- if a quorum consisting of directors who were not parties to the actions, suit or proceeding cannot be obtained, by independent legal counsel in a written opinion.

The articles of incorporation, the bylaws or an agreement made by the corporation may provide that the expenses of officers and directors incurred in defending a civil or criminal action, suit or proceeding must be paid by the corporation as they are incurred and in advance of the final disposition of the actions, suit or proceeding, upon receipt of an undertaking by or on behalf of the director or officer to repay the amount if it is ultimately determined by a court of competent jurisdiction that he is not entitled to be indemnified by the corporation. The provisions do not affect any right to advancement of expenses to which corporate personnel other than directors or officers may be entitled under any contract or otherwise by law. The indemnification and advancement of expenses authorized in or ordered by a court pursuant to Nevada law does not exclude any other rights to which a person seeking indemnification or advancement of expenses may be entitled under the articles of incorporation or any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, for either an action in his official capacity or an action in another capacity while holding office, except that indemnification, unless ordered by a court or for the advancement of expenses, may not be made to or on behalf of any director or officer if his acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and was material to

the cause of action. In addition, indemnification continues for a person who has ceased to be a director, officer, employee or agent and inures to the benefit of the heirs, executors and administrators of such a person.

#### *Alberta, Canada*

Alberta law provides that a corporation may indemnify a director or officer or former director or officer of the corporation against costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment reasonably incurred by the individual, in respect of a proceeding to which such person was a party by reason of being or having been a director or officer, if the person:

- acted honestly and in good faith with a view to the best interests of the corporation; and
- in the case of a criminal or administrative proceeding enforced by a monetary penalty, he had reasonable grounds for believing his conduct was lawful.

Where the indemnity is in respect of an action by or on behalf of the corporation for a judgment in its favor to which the director or officer is made party, such indemnity is only available if the director or officer fulfills those conditions.

#### *2.5.5 Voting Rights with respect to Extraordinary Corporate Transactions*

#### *Nevada*

Approval of mergers and consolidations, amendments to the articles of incorporation, and sales, leases or exchanges of all or substantially all of the property or assets of a corporation, whether or not in the ordinary course of business, requires the affirmative vote or consent of the holders of a majority of the outstanding shares entitled to vote, except that, unless required by the articles of incorporation, no vote of stockholders of the corporation surviving a merger is necessary if:

- the merger does not amend the articles of incorporation of the corporation,
- each outstanding share immediately prior to the merger is to be an identical share after the merger, and
- either no common stock of the corporation and no securities or obligations convertible into common stock are to be issued in the merger, or the common stock to be issued in the merger, plus that initially issuable on conversion of other securities issued in the merger does not exceed 20% of the common stock of the corporation outstanding immediately before the merger.

#### *Alberta, Canada*

Approvals of charter amendments, amalgamations (except amalgamations between a corporation and wholly owned subsidiaries), continuances into other jurisdictions, share consolidations, business combinations, and sales, leases or exchanges of substantially all the property of a corporation, other than in the ordinary course of business of the corporation requires approval by the stockholders by a two-thirds majority vote at a duly called meeting.



### 2.5.6 *Stockholders' Consent without a Meeting*

#### *Nevada*

Unless otherwise provided in the articles of incorporation or the bylaws, any actions required or permitted to be taken at a meeting of the stockholders may be taken without a meeting if, before or after taking the actions, a written consent is signed by the stockholders holding at least a majority of the voting power, except that if a different proportion of voting power is required for such an action at a meeting, then that proportion of written consent is required. In no instance where actions is authorized by written consent need a meeting of the stockholders be called or notice given.

#### *Alberta, Canada*

Any action required or permitted to be taken at a meeting of the stockholders may be taken by a written resolution signed by all the stockholders entitled to vote on such resolution.

### 2.5.7 *Stockholder Voting Requirements*

#### *Nevada*

Unless the articles of incorporation or bylaws provide for different proportions, a majority of the voting power, which includes the voting power that is present in person or by proxy, regardless of whether the proxy has authority to vote on all matters, constitutes a quorum for the transactions of business. In all matters other than the election of directors and certain corporate actions, including approval of amendments to the articles of incorporation for which Chapter 98 of the Nevada Revised Statutes imposes special voting requirements, the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Under Nevada law, charter amendments require approval by persons holding a majority of a corporation's outstanding voting shares without regard to the number of shares that may be present at a meeting in person or by proxy. Directors must be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Where a separate vote by a class or series or classes or series is required, a majority of the voting power of the class or series that is present in person or by proxy, regardless of whether the proxy has authority to vote on all matters, constitutes a quorum for the transaction of business. An act by the stockholders of each class or series is approved if a majority of the voting power of a quorum of the class or series votes for the actions.

#### *Alberta, Canada*

Unless the by-laws otherwise provide, a quorum of stockholders is present for a meeting if the holders of a majority of the shares entitled to vote at the meeting are present in person or represented by proxy. It is common practice for companies to provide for a quorum of stockholders to be deemed present when as little as 5% of the issued and outstanding share capital entitled to vote is present in person or represented by proxy. Except where the ABCA requires approval by a special resolution, requiring approval by a two-thirds majority of the shares present in person or represented by proxy and entitled to vote on the resolution, a simple majority of the shares present in person or represented by proxy and entitled to vote on a resolution is required to approve any resolution properly brought before the stockholders. Where the articles of a corporation provide for cumulative voting, stockholders voting at an election of directors have the right to a number of votes equal to the votes attached to the shares held by such stockholder

multiplied by the number of directors to be elected and stockholders may cast all such votes in favor of one candidate for director or may distribute the votes among the candidates in any manner. The holders of a class or series of shares are entitled to vote separately on proposals to amend the articles of a corporation where such amendment affects the rights of such class or series in a manner different than other shares of the corporation. A vote to approve any such amendment is passed if approved by a two-thirds majority of the voting power of the class or series represented in person or by proxy at a meeting called to approve such amendment.

#### *2.5.8 Dividends*

##### *Nevada*

A corporation is prohibited from making a distribution to its stockholders if, after giving effect to the distribution, the corporation would not be able to pay its debts as they become due in the usual course of business or the corporation's total assets would be less than its total liabilities (plus any amounts necessary to satisfy any preferential rights).

##### *Alberta, Canada*

A corporation is prohibited from declaring or paying a dividend if there are reasonable grounds for believing that the corporation, is or would after the payment be, unable to pay its liabilities as they become due or the realizable value of the corporation's assets would be less than the total of its liabilities and stated capital of all classes.

#### *2.5.9 Anti-Takeover Provisions*

##### *Nevada*

Nevada's "Acquisition of Controlling Interest Statute" applies to Nevada corporations that have at least 200 shareholders, with at least 100 shareholders of record being Nevada residents that do business directly or indirectly in Nevada. Where applicable, the statute prohibits an acquiror from voting shares of a target company's stock after exceeding certain threshold ownership percentages, until the acquiror provides certain information to the company and a majority of the disinterested shareholders vote to restore the voting rights of the acquiror's shares at a meeting called at the request and expense of the acquiror. If the voting rights of such shares are restored, shareholders voting against such restoration may demand payment for the "fair value" of their shares (which is generally equal to the highest price paid in the transaction subjecting the stockholder to the statute). The Nevada statute also restricts a "business combination" with "interested shareholders", unless certain conditions are met, with respect to corporations which have at least 200 shareholders of record. A "combination" includes:

- any merger with an "interested stockholder," or any other corporation which is or after the merger would be, an affiliate or associate of the interested stockholder;
- any sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets, to an "interested stockholder," having an aggregate market value equal to 5% or more of the aggregate market value of the corporation's assets; an aggregate market value equal to 5% or more of the aggregate market value of all outstanding shares of the corporation; or representing 10% or more of the earning power or net income of the corporation;

- any issuance or transfer of shares of the corporation or its subsidiaries, to the "interested stockholder," having an aggregate market value equal to 5% or more of the aggregate market value of all the outstanding shares of the corporation;
- the adoption of any plan or proposal for the liquidation or dissolution of the corporation proposed by the "interested stockholder";
- certain transactions which would result in increasing the proportionate percentage of shares of the corporation owned by the "interested stockholder"; and
- the receipt of benefits, except proportionately as a stockholder, of any loans, advances or other financial benefits by an "interested stockholder."

An "interested stockholder" is a person who, together with affiliates and associates, beneficially owns (or within the prior three years, did beneficially own) 10% or more of the corporation's voting stock. A corporation to which this statute applies may not engage in a "combination" within three years after the interested stockholder acquired its shares, unless the combination or the interested stockholder's acquisition of shares was approved by the board of directors before the interested stockholder acquired the shares. If this approval was not obtained, then after the three year period expires, the combination may be consummated if all applicable statutory requirements are met and either:

- the board of directors of the corporation approves, prior to such person becoming an "interested stockholder", the combination or the purchase of shares by the "interested stockholder"; or the combination is approved by the affirmative vote of holders of a majority of voting power not beneficially owned by the "interested stockholder" at a meeting called no earlier than three years after the date the "interested stockholder" became such; or
- the aggregate amount of cash and the market value of consideration other than cash to be received by holders of common shares and holders of any other class or series of shares meets certain minimum requirements set forth in the statutes, and prior to the consummation of the "combination", except in limited circumstances, the "interested stockholder" will not have become the beneficial owner of additional voting shares of the corporation.

#### *Alberta, Canada*

There is no provision under Alberta law similar to the Nevada Acquisition of Controlling Interest Statute.

#### *2.5.10 Appraisal Rights; Dissenters' Rights*

#### *Nevada*

Nevada law limits dissenters rights in a merger, when the shares of the corporation are listed on a national securities exchange included in the National Market System established by the National Association of Securities Dealers, Inc. or are held by at least 2,000 shareholders of record, unless the shareholders are required to accept in exchange for their shares anything other than cash or

- shares in the surviving corporation if the surviving corporation is publicly listed on a national securities exchange or held by more than 2,000 shareholders;

- shares in another entity that is publicly listed on a national securities exchange or held by more than 2,000 shareholders; or
- any combination of cash or shares in an entity described above.

Also, the Nevada law does not provide for dissenters' rights in the case of a sale of assets.

#### *Alberta, Canada*

Under the ABCA stockholders have rights of dissent where the corporation amends its articles to change any provisions restricting or constraining the issue or transfer of ownership of shares of a class, or to add, change or remove restrictions on the business or businesses the corporation may carry out. Stockholders also have dissent rights where a corporation proposes to amalgamate, other than with a wholly owned subsidiary corporation, continue to another jurisdiction, or sell, lease or exchange all or substantially all of its property.

#### *2.5.11 Statutory Oppression Remedy*

#### *Nevada*

There is no provision under Nevada law similar to the provision in the ABCA described below.

#### *Alberta, Canada*

Under the ABCA, shareholders, creditors, or officers and directors of a corporation may apply to a court for relief for acts or omissions by a corporation, or its officers, directors, or other affiliates that are oppressive or unfairly prejudicial to or that unfairly disregard the interests of such persons. The court may issue an order:

- restraining the conduct complained of;
- appointing a receiver;
- to regulate a corporation's affairs by amending its articles or bylaws;
- declaring that any amendment made to the articles or bylaws pursuant to the above operates notwithstanding any unanimous shareholder agreement made before or after the date of the order, until the court otherwise orders;
- directing an issue or exchange of securities;
- appointing directors in place of or in addition to all or any of the directors then in office;
- directing a corporation subject to repurchase restrictions related to the solvency of the corporation, or any other person to purchase securities of a security holder;
- directing a corporation or any other person to pay to a security holder any part of the money paid by the security holder for securities;

- directing a corporation subject to dividend payment restrictions related to the solvency of the corporation, to pay a dividend to its shareholders or a class of its shareholders;
- varying or setting aside a transaction or contract to which a corporation is a party and compensating the corporation or any other party to the transaction or contract;
- requiring a corporation, within a time specified by the court, to produce to the court or an interested person financial statements in the form required to be produced at an annual shareholders' meeting or an accounting in any other form the court may determine;
- compensating an aggrieved person;
- directing rectification of the registers or other records of a corporation;
- for the liquidation and dissolution of the corporation
- directing an investigation to be made of the corporation or any of its affiliated corporations;
- requiring the trial of any issue;
- granting leave to the applicant to;
- bring an action in the name and on behalf of the corporation or any of its subsidiaries, or
- intervene in an action to which the corporation or any of its subsidiaries is a party, for the purpose of prosecuting, defending or discontinuing an action on behalf of the corporation or any of its subsidiaries.

### **3. General Development of the Business**

#### **3.1 – General Development of the Company's Business**

The Company was formed to purchase, lease and improve certain real estate properties, initially in the State of Oregon and the State of Nevada, which are or will be utilized as either cannabis selling retail establishments or cannabis growing facilities. The Company was founded by Adam Berk, Chief Executive Officer and a director of the Company, Steve Hubbard, Chief Financial Officer and a director of the Company, and Garrett Bender, a director of the Company.

The initial business of the Company was detailed in the Multiparty Agreement among Oregon Acquisitions, Gated Oregon, Kind Care, Never Again and Stem, pursuant to which Stem began to carry on business. The Multiparty Agreement provided for the following:

- the relationships between the various founders of the Company and initial share ownership of the Company;
- certain proposed real estate transactions to be undertaken by the Company together with the business terms and structures related to such transactions;
- the rental terms and lessees for the properties identified by the parties;

- the terms of a right of first refusal with respect to the acquisition of additional properties;
- certain terms related to additional investment in the Company by the founders and the terms and conditions thereof; and
- the terms and conditions of the potential acquisition of the operating companies by the Company were such ownership to become legal.

The following three initial real property transactions were identified in the Multiparty Agreement (the "**Initial Properties**"):

- Purchase of the Willamette Property;
- Lease of the 42nd Street Property; and
- Lease of the Farm Property, with an option to purchase the Farm Property, subject to due diligence and other closing conditions.

The Company is not currently involved in the operation of these properties or in the growing or sale of cannabis.

The Multiparty Agreement contemplates that the Initial Properties owned or leased by the Company and identified in the Multiparty Agreement will be leased by the Company to subsidiaries of Opco Holdings. Opco Holdings is a company formed in 2016 by the Company's founders and their affiliates for the purpose of operating multiple cannabis-related businesses initially in the State of Oregon. The Company's founders and their affiliated entities directly and indirectly collectively own approximately 13.17% of the outstanding stock of Opco Holdings.

The following table shows the respective ownership holdings of certain of founders of the Company in both the Company and Opco Holdings. The holdings reflected below include shares held both directly by the founders of the Company and also shares held indirectly through their affiliated companies:

<b>Founder of Company</b>	<b>Current Title</b>	<b>Common Shares (#)</b>	<b>Company Ownership (%)</b>	<b>Opco Holdings Ownership (%)</b>
Adam Berk	Officer/Director	314,866	3.41%	7.81%
Steve Hubbard	Officer/Director	68,333	0.74%	0.67%
Garrett Bender	Director	128,974	1.40%	4.69%
<b>TOTAL</b>		<b>512,173</b>	<b>5.55%</b>	<b>13.17%</b>

The equity interests in Opco Holdings reflected in the foregoing table are held indirectly through various entities by each of the officers and directors listed above.

### **3.2 – Acquisitions and Dispositions**

While the Company has not completed any "significant acquisition" (as defined under applicable securities laws), the following is an overview of certain acquisitions completed by the Company.

***42nd Street Property***

In July 2016, the Company entered into a 10-year lease for the 42nd Street Property 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 for the 42nd Street Property 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 has subleased this space effective July 1, 2017. See "*Narrative Description of the Business – General – Production and Sales – 42nd Street Property*".

***Willamette Property***

On November 1, 2016, the Company acquired the Willamette Property for a total cash purchase price plus closing costs of approximately \$918,000.

***Patch Transaction***

In November 2016, the Company entered into an Arrangement Agreement (the "**Arrangement Agreement**") with Patch International Inc. ("**Patch**"), a company incorporated in the Province of Alberta, Canada, whereby the Company agreed to acquire all of the issued and outstanding shares of Patch by way of a plan of arrangement under Section 193 of the ABCA (the "**Arrangement**"). 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), and to hold a general meeting of its shareholders and have the shareholders vote to approve the arrangement (which took place on January 19, 2017), among certain other customary requirements. As of the time of the Arrangement Agreement, Patch did not have any operations and was considered a dormant entity.

On January 20, 2017, the Company completed the Arrangement and issued 1,048,782 Common Shares to the former shareholders of Patch. The aggregate cash held by Patch at the closing was approximately \$2,450,000.

***Powell Property***

On February 6, 2017, the Company acquired the Powell 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 non-interest bearing note payable to the seller in the amount of approximately \$304,000. As of the date of the Listing Statement, the balance owed on such note is approximately \$79,000.

***Farm Property***

On April 15, 2017, the Company entered into a "**Contract for Sale**" for the Farm Property, pursuant to which the seller agreed to sell the Farm Property to the Company upon the completion of the Company's

due diligence investigations and completion of the closing conditions precedent to each party's obligations under the Contract for Sale. In order for the Company to make use of the premises while completing its due diligence and while the parties completed their conditions to closing under the Contract for Sale, the seller and the Company agreed to enter into a lease in respect of the premises upon the following terms and conditions. The term of the lease commenced on April 5, 2017 and expired on the earlier of: (i) the termination of the Contract for Sale by either party thereto in accordance with its terms; and (ii) October 5, 2017. The lease required 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) were the responsibility of the Company.

In January 2018, the Company consummated the purchase of the Farm Property pursuant to the Contract for Sale for a total purchase price of \$1,700,000, reduced by a rental credit of \$105,000 and a leasehold improvement credit for \$9,500. The purchase price was satisfied by a cash payment and the issuance of a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full.

### ***Acquisition of TJ's Las Vegas Property***

On June 6, 2018, the Company acquired a 37.5% interest in NVD Re Corp. which is the sole owner of TJ's Las Vegas Property for a purchase price of \$600,000. The Company intends to develop TJ's Las Vegas Property into a facility suitable for the cultivation, extraction & processing of cannabis products. The Company currently expects the completion of such development to occur on or prior to November 1, 2018, following which, the Company will lease TJ's Las Vegas Property to YMY Ventures, LLC, which is a medical and retail marijuana product manufacturer and cultivation licensee in the State of Nevada.

## **3.3 – Trends, Commitments, Events or Uncertainties**

### ***Trends in the Cannabis Industry in Oregon***

On November 4, 2014, the State of Oregon legalized recreational marijuana for people ages 21 and older. In the State of Oregon, the OLCC issues six types of licenses: (i) Producer; (ii) Wholesale; (iii) Laboratory; (iv) Research; (v) Processor; and (vi) Retail. The grant of such licenses from the OLCC is subject to various zoning restrictions, including that no OLCC marijuana licensed facility: (i) may be on federal property; (ii) may be at the same physical location or address as a liquor licensee licensed under ORS Chapter 471 or as a retail liquor agent appointed by the OLCC; (iii) may be at the same physical location or address as a medical marijuana processing site registered with the Oregon Health Authority; or (iv) may be at the same physical location or address as a medical marijuana dispensary registered with the Oregon Health Authority.

The Company has retained a respected legal team in Oregon to support its activities; in fact, the Company's legal team helped draft the recreational marijuana initiative that was passed in 2014. They have relationships that are instrumental with the lobbying efforts in the State of Oregon. They work directly with the State of Oregon Rules Advisory Committee to structure Stem's business activities to best meet all regulations and strictly adhere to all state and federal laws governing the growth and dispensing of marijuana. The Oregon Health Authority has the power to develop rules, regulations and testing procedures within the industry. The goal of the State of Oregon is to ensure overall safety and to allow safe access to cannabis products.



### ***Trends in the Cannabis Industry in Nevada***

In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and, therefore, created a limited non-commercial medical marijuana patient system. In 2013, Senate Bill 374 was signed by the governor of Nevada and had the effect of expanding Nevada's medical marijuana system and establishing a for-profit regulated medical marijuana industry. In November 2016, the State of Nevada legalized recreational marijuana for people ages 21 and older. Under Nevada's adult-use marijuana law, the DoT licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. In the State of Nevada, the DoT issues five types of licenses in respect of recreational and medical marijuana: (i) Cultivation Facility; (ii) Distributor; (iii) Product Manufacturing Facility; (iv) Testing Facility; and (v) Retail Store.

The regular retail marijuana program began in early 2018. The *Regulation and Taxation of Marijuana Act* specifies that, for the first 18 months of such program, only existing medical marijuana establishment certificate holders could apply for a retail marijuana establishment license. Beginning in November 2018, the DoT will open up the application process to those not holding a medical marijuana establishment certificate. The regular program will be governed by permanent regulations, drafted by the DoT.

Notwithstanding the legalization and licensing of marijuana by Oregon, Nevada and certain other states, marijuana is a Schedule I controlled substance under the CSA. Even in those jurisdictions in which the manufacture and use of marijuana has been legalized at the state-level, the possession, use and cultivation all remain violations of U.S. federal law that are punishable by imprisonment and substantial fines. Moreover, individuals and entities may violate U.S. federal law if they intentionally aid and abet another in violating these federal controlled substance laws, or conspire with another to violate them. Therefore, the strict enforcement of federal controlled substance laws would materially adversely affect our ability to execute our business plan.

### ***Other Regulatory Matters***

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 – *Issuers with U.S. Marijuana-Related Activities ("CSA Notice 51-352")*, below is a discussion of the U.S. regulatory regime. In accordance with CSA Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

#### *United States Federal Overview*

In the United States, 29 states and the District of Columbia have legalized medical marijuana, while 9 states and the District of Columbia have also legalized adult-use marijuana. At the U.S. federal level, however, cannabis currently remains a Schedule I controlled substance under the CSA. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, the manufacture, importation, possession, use or distribution of cannabis remain illegal under U.S. federal law. This has created a dichotomy between state and U.S. federal law, whereby many states have

elected to regulate and remove state-level penalties regarding a substance which is still illegal at the U.S. federal level.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has, at least until recently, trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("DOJ") issued a memorandum known as the "**Cole Memorandum**" to all U.S. attorneys' offices ("**U.S. Attorneys**"). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medical or adult-use cannabis programs. The Cole Memorandum, while not legally binding, assisted in managing the tension between state and U.S. federal laws concerning state-regulated marijuana businesses.

However, on January 4, 2018 the Cole Memorandum was revoked by Attorney General Jeff Sessions. While this did not create a change in U.S. federal law, as the Cole Memorandum was not itself law, the revocation added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is regulated.

In addition to his revocation of the Cole Memorandum, Attorney General Sessions also issued a one-page memorandum known as the "**Sessions Memorandum**". This confirmed the rescission of the Cole Memorandum and explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance as set forth in the U.S. Attorney's Manual (the "**USAM**"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that it is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise guide U.S. Attorneys that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memorandum's guidance. Dozens of U.S. Attorneys across the country have affirmed their commitment to proceeding in this manner, or otherwise affirming that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence.

It is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum.

Additionally, under U.S. federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of marijuana or any other Schedule I controlled substance. Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions, particularly those that are federally chartered in the U.S., could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses.

Despite these laws, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("**FinCEN**") issued a memorandum on February 14, 2014 (the "**FinCEN Memorandum**") outlining the

pathways for financial institutions to bank state-sanctioned marijuana businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the Cole Memorandum. Under these guidelines, financial institutions must submit a Suspicious Activity Report ("SAR") in connection with all marijuana-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These marijuana-related SARs are divided into three categories – marijuana limited, marijuana priority, and marijuana terminated – based on the financial institution's belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively.

On the same day as the FinCEN Memorandum was published, the DOJ issued a memorandum (the "**2014 Cole Memorandum**") directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memorandum has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.

However, Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memorandum has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to be a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance. In the United States, it remains difficult for cannabis-based businesses to open and maintain a bank account with any bank or other financial institution.

#### *Enforcement of U.S. Federal Laws*

For the reasons set forth herein, the Company's existing investments and activities in the United States, and any future investments and activities, may become the subject of heightened scrutiny by regulators, stock exchanges, third party service providers, financial institutions, depositories and other authorities in Canada and the United States. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Further, violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the

Company, including its reputation and ability to conduct business, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded Common Shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

#### *U.S. Enforcement Proceedings*

Although the Cole Memorandum and 2014 Cole Memorandum have been rescinded, one legislative safeguard for the medical marijuana industry remains in place. Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (currently, the "**Leahy Amendment**") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Leahy Amendment was included in the FY 2018 budget passed on March 23, 2018, meaning that the Leahy Amendment is still in effect as of today's date and will remain in effect until September 30, 2018, when FY 2019 begins.

#### *Summary of the Company's United States Cannabis Activity*

The Company has ancillary involvement in the cannabis industry through the purchasing, leasing and improvement of certain real estate properties, initially in the State of Oregon and the State of Nevada, which are or will be utilized as either cannabis selling retail establishments or cannabis growing facilities.

The Company has developed a robust compliance program designed to ensure operational and regulatory requirements continue to be satisfied, and has retained a respected legal team in Oregon to support its activities and monitor the Company's compliance with U.S. state law on an ongoing basis. The Company will continue to work closely with its legal advisors to develop and improve its internal compliance program, and will defer to their legal opinions and risk mitigation guidance regarding the Company's U.S. operations.

#### *Ability to Access Public and Private Capital*

The Company has historically, and continues to have, access to private capital in Canada and the United States in order to support its continuing operations. The Company expects that all capital requirements will be adequately met through future public or private equity financings in Canada and the United States. However, our business is subject to all of the risks associated with having material ancillary involvement in the cultivation and distribution of cannabis in the United States. As such, there is a risk that conventional private or public offerings of securities or conventional bank financing will not be available to us in the future. In particular, conventional debt financing from Canadian and United States financial institutions has been, and likely will be, unavailable to the Company under the current regulatory environment.

## 4. Narrative Description of the Business

### 4.1 – General

#### 4.1.1 *Narrative Description of the Company's Business*

#### **Business Objectives**

The Company operates as a real estate holding company, with a direct focus on providing properties advantageous to growers and sellers in the regulated cannabis industry. The Company's current activities include the leasing of properties, funding of capital improvements and administration of such leases. As such, its revenues will only comprise passive rental and interest income and its operating expenses will be limited to the general and administrative expense associated with such activity.

Additionally, the Company will incur interest expense as debt is incurred and will be liable for the payment of all applicable taxes. The Company does not engage in any research and development activities and does not produce any products or deliver any services other than the leasing of real property.

#### **Significant Events and Milestones**

As set out in the Multiparty Agreement, once the Company has invested an aggregate of \$10 million in real estate properties ("**Milestone 1**"), the Company will be obligated to purchase two additional specified properties from parties to the Multiparty Agreement for aggregate consideration of \$1,000,000 within ninety (90) days of achieving Milestone 1.

#### *Right of First Refusal*

A right of first refusal was granted to the Company to acquire each new parcel of real property identified by various parties to the Multiparty Agreement as suitable for the production or retail sale of cannabis in the State of Oregon. This right of first refusal shall remain in effect so long as the Company has invested at least an aggregate of \$8 million in real property by January 30, 2019 and has invested at least an aggregate of \$13 million in real property by January 30, 2020. As of June 15, 2018, the Company has invested an aggregate of \$8,600,000 in real property.

Notwithstanding the foregoing, the requirement to achieve the aforementioned milestones with respect to the continuation of the right of first refusal will be excused in the following circumstances:

**(i) First Quarter Achievement Threshold:** Such right of first refusal will remain in full force and effect for so long as rental income from Stem's properties does not equal or exceed an annualized \$1.2 million during any calendar quarter, commencing on or after December 1, 2017 ("**FQAT**"). If rental income from Stem's properties equals or exceeds the FQAT, such right of first refusal may be terminated on or after the 12-month period following the last calendar quarter in which the FQAT was satisfied, provided that Stem may revive such right of first refusal by investing \$5 million into certain additional real property by the last day of such 12-month period.

**(ii) Second Quarter Achievement Threshold:** If the FQAT is satisfied and Stem invests \$5 million into certain additional real property to revive its right of first refusal, such right of first refusal will remain in full force and effect for so long as rental income from Stem's properties does not equal or exceed an annualized \$3.2 million during any calendar quarter, commencing on or after March 1, 2019 ("**SQAT**"). If rental income from Stem's properties equals or exceeds the

SQAT, such right of first refusal may be terminated on or after the last day of the calendar quarter in which the SQAT was met, provided that Stem revive such right of first refusal by investing \$8 million into certain additional real property by the last day of the calendar quarter in which SQAT was met.

**(iii) Third Quarter Achievement Threshold:** If the SQAT is satisfied and Stem invests \$8 million into certain additional real property to revive its right of first refusal, such right of first refusal will remain in full force and effect for so long as rental income from Stem's properties does not equal or exceed an annualized \$5 million during any calendar quarter, commencing on or after August 1, 2019 ("**TQAT**"). If rental income from Stem's properties equals or exceeds the TQAT, such right of first refusal may be terminated on or after the last day of the calendar quarter in which the TQAT was met, provided that Stem revive such right of first refusal by investing \$13 million into certain additional real property by the last day of the calendar quarter in which TQAT was met.

The Company's annualized revenue based on the calendar quarter ended March 31, 2018 was \$1,239,840. As a result, the Company has satisfied the FQAT and its right of first refusal pursuant to the Multiparty Agreement may be terminated on or after March 31, 2019 unless Stem invests \$5 million into certain additional real property by March 31, 2019.

Each of the properties owned or leased by the Company will be leased to subsidiaries of Opco Holdings. Currently, the Company is not directly involved in the operation of these properties or in the growing or sale of cannabis.

#### *Obligation to Purchase Preferred Shares*

Each of the subsidiaries of Opco Holdings is obligated to purchase Preferred Shares under certain specified terms and conditions, as set forth below.

After the Company invests an aggregate of \$13 million in real property, but before the Company is legally able to engage in the operating of the properties under U.S. federal law, each of the subsidiaries of Opco Holdings is required by the Multiparty Agreement to allocate an amount equal to at least 50% of its post-tax, net operating income to purchase Preferred Shares on the following terms:

- (a) Redeemable 20 years after issuance;
- (b) Annual dividend of 3%;
- (c) Convertible into Common Shares at the higher of:
  - (i) \$10 per Common Share (adjusted for share exchange, reclassification, combination, dividend, split, or similar event); or
  - (ii) Average closing price of Common Shares for the 20 trading days prior to conversion date; and
- (d) Such other preferences, rights, privileges, and limitations upon which the parties may mutually agree.

#### *Purchase of Operating Businesses*

As long as the Company has fully satisfied all of its obligations and milestones pursuant to the Multiparty Agreement, the Company will have the obligation to acquire the business operations of Opco Holdings and its subsidiaries, and Opco Holdings, Oregon Acquisitions, Gated Oregon and Kind Care shall each have the obligation to sell such operations, within a reasonable time after the Company receives a legal

opinion that the operation of the Opco marijuana businesses in the State of Oregon by Stem will not violate any federal or state laws. However, the Company has no reason to believe that a change in U.S. federal law is forthcoming or likely either in the near term or long term, and accordingly there is no assurance that such a purchase will occur.

Upon the acquisition of Opco's business operations (if it occurs), all Preferred Shares issued to Opco shall be converted into Common Shares.

### *Debt Financing*

The Company issued a \$100,000 promissory note dated December 1, 2017, initially at an interest rate of 24% with a maturity date of March 1, 2018. As an inducement to issue the promissory note, the Company granted the holder thereof Common Share purchase warrants to acquire 20,833 Common Shares at a price of \$2.40 per Common Share for a period of two years. On March 1, 2018, pursuant to an amending agreement, the parties thereto agreed to extend the note for one more year and decrease the annual interest rate to 8%. Additionally, pursuant to such amending agreement (i) the Company has the right to prepay the note combined with accrued interest at any time prior to maturity; (ii) the lender has the right to call the note together with accrued interest on not less than 30 days' written notice to the Company; and (iii) at any time prior to maturity of the note, the lender has the option to convert the indebtedness with accrued interest into Common Shares at a conversion rate of \$2.40 per Common Share.

In connection with the Company's purchase of the Farm Property pursuant to the Contract for Sale in January 2018, the Company issued a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full.

On February 28, 2018, the Company executed a \$550,000 mortgage payable on the Willamette Property to acquire additional funds. Such mortgage bears interest at 15% per annum. Monthly interest only payments began March 1, 2018 and continue each month thereafter until the principal is repaid in full. The entire unpaid balance is due on March 1, 2020, being the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. For the six months ended March 31, 2018, interest expense related to this mortgage amounted to \$6,875.

As of February 2018, the Company entered into a 10-month premium finance agreement in partial consideration for an insurance policy in the principal amount of \$216,086. The note bears an annual interest rate of 5.75% and requires the Company to make ten monthly payments of \$22,105 over the term of the note. As of March 31, 2018, the obligation outstanding is \$198,743.

Effective March 2, 2018, the Company entered into a 10-month premium finance agreement in partial consideration for an insurance policy in the principal amount of \$8,836. The note bears an annual interest rate of 5.75% and requires the Company to make ten monthly payments of \$904 over the term of the note. As of March 31, 2018, the obligation outstanding is \$8,135.

On April 4, 2018, the Company executed a \$316,000 mortgage payable on the Powell Property to acquire additional funds. Such mortgage bears interest at 15% per annum. Monthly interest only payments began

May 1, 2018 and continue each month thereafter until the principal is repaid in full. The entire unpaid balance is due on April 1, 2020, being the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project.

Between May 18, 2018 and June 1, 2018, the Company issued \$1,500,000 principal amount of 8% convertible debentures of the Company (the "**Convertible Debentures**"). The Convertible Debentures carry an annual interest rate of 8%, payable quarterly in arrears on the fifth day of each calendar quarter. The Convertible Debentures mature on the earlier of: (i) one (1) year following the issue date; and (ii) five (5) days after the Company has received, in the aggregate, at least \$5.0 million of new equity investment since the issue date. Each holder of a Convertible Debenture has the right to convert all or a portion of the principal amount of Convertible Debentures so held at a conversion rate of \$2.50 per Common Share.

#### *Equity Financing*

On December 8, 2017, the Company closed a non-brokered private placement of 625,000 Common Shares at a price of \$2,40 per Common Share for gross proceeds of \$1,500,000 (the "**Offering**").

#### **Company Funding**

The Company has available funds of approximately \$2,640,308 as of the date of the Listing Statement. The Company's estimated consolidated working capital as at the date hereof is approximately \$1,332,394.

The Company plans to use the available funds of approximately \$2,640,308 as follows:

General and Administrative Expenses (12 months)	\$825,000
Capital Expenditures (Continuation of Phase 3, set out below)	\$1,815,308
<b>Total Use of Proceeds</b>	<b>\$2,640,308</b>

The Company anticipates using the above funds within a period of 12 months.

Notwithstanding the foregoing, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Company to achieve its objectives. The Company may require additional funds in order to fulfill all of its expenditure requirements to meet its business objectives and may either issue additional securities or incur debt. There can be no assurance that additional funding required by the Company will be available, if required.

#### **Growth Strategy**

The Company's business plan involves the potential deployment of \$13,000,000 in capital to purchase, lease and build-out turnkey cannabis facilities over four phases:

- **Phase 1:** \$3,000,000 to acquire and improve the Initial Properties. Phase 1 has been completed.
- **Phase 2:** \$1,000,000 to acquire and improve an additional dispensary. Phase 2 has been completed.



- **Phase 3:** \$4,000,000 to acquire two indoor growing or extraction facilities and one outdoor growing facility. Phase 3 is in progress.
- **Phase 4:** \$5,000,000 to acquire and improve an additional dispensary, two indoor growing facilities, one outdoor growing facility and to acquire options to purchase three additional dispensaries.

The timing of this growth strategy will be based on the availability of funding and appropriate facilities to the Company. As of June 15, 2017, the Company has completed the acquisition (or lease) of the three Initial Properties, which are part of Phase 1, above. The Company has accomplished Phase 2 by completing the acquisition and improvement of an additional dispensary, being the Powell Property.

Following the acquisition of TJ's Las Vegas Property, the Company intends to complete Phase 3 through the acquisition of one additional growing or extraction facility and one outdoor growing facility, which will require up to \$3,400,000 in capital. The Company intends to allocate \$1,815,308 of its available funds as of the date of the Listing Statement towards the partial completion of Phase 3.

In furtherance of such objective, the Company will continue to pursue acquisition targets in jurisdictions where Cannabis is legal, including Oregon and Nevada. The principal milestones that must occur during the next 12 month period for the partial completion of Phase 3 are as follows:

- **New Facility Operations:** On-time and on-budget completion of all existing facilities currently in development, including TJ's Las Vegas Property which the Company intends to develop into a facility suitable for the cultivation, extraction and processing of cannabis products by November 1, 2018.
- **Hiring of Key Personnel:** Successful and timely hiring of key personnel to support execution of scale and growth initiatives.
- **Execution of Business Model:** Significant market changes, or delayed operational timelines, may impact the revenue projections of the Company and may result in the need for additional capital. In particular, if there are delays in rental payments from the Farm Property or the 42<sup>nd</sup> Street Property which are expected to begin in September 2018, the Company may require additional funds to meet its business objectives.
- **Regulatory Approval:** The above growth objectives assume the timely approval from applicable state regulatory agents in respect of the facilities that the Company leases to its tenants. Regulatory delays may affect outcomes.
- **Industry-Wide Regulatory Changes:** The Company's activities assume current and relatively known anticipated regulatory environments, including the current regulatory environment in Oregon and Nevada at the state and municipal level. Regulatory delays or changes may affect outcomes.

#### 4.1.2 *Principal Products and Markets*

The Company's principal operations relate to the leasing of properties, funding of capital improvements and administration of its leases. As such, its revenues will only comprise passive rental and interest

income and its operating expenses will be limited to the general and administrative expense associated with such activity. The Company's principal market is in the State of Oregon.

In July 2017, the Company commenced rental operations through real estate leases with entities that engage in the cultivation, processing and sale of cannabis. The Company recorded \$619,789 in revenue for the six months ended March 31, 2018, primarily derived from rental income.

#### *4.1.3 Production and Sales*

The Company's business requires that it possess or be in a position to access specialized knowledge and expertise regarding the state-licensed cannabis industry and those persons and entities who are involved in the industry. The Company believes that its management has such specialized expertise and experience, and the Company retains legal counsel that has recognized expertise in the industry. The Company does not believe that any aspect of its business is either: (i) cyclical or seasonal; or (ii) dependent on any particular franchise or license or other agreement to use a patent, formula, trade secret, process or trade name. The Company has not identified any specific environmental protection issues which will affect its business. The Company does not own identifiable intangible properties.

The Company is dependent on the financial solvency of its lessees and revenues could be adversely affected in a material way should any lessee not be able to maintain lease payments on a regular or consistent manner. Given that the Company has not achieved a critical mass of properties, a default by any single tenant would have a material impact on the Company's finances for an indeterminate period of time.

The Company does not believe that its operations are dependent on any factors within the general economy. However, any material changes in either U.S. federal law enforcement priorities or the law of the State of Oregon or the State of Nevada affecting the cultivation and sale of cannabis could have a material impact on the Company's business, particularly since the growth, marketing, sale, and use of marijuana is illegal under U.S. federal law.

### **Leasing Properties**

#### ***Willamette Property***

In July 2017, the Company entered into an operating lease agreement with a marijuana dispensary, as lessee, in respect of the Willamette Property. The lease agreement is for a base term of ten years and a monthly rent obligation of \$13,800, subject to annual increases of 3% per year, plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the lessee and insurance costs paid by the Company. The lease is in good standing as at the date of this Listing Statement.

Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for one five-year term, on the same terms as provided in the lease agreement.

#### ***42nd Street Property***

In July 2017, the Company entered into a lease agreement for the 42nd Street Property. The lease agreement is for a term of ten years and a monthly rent obligation of \$64,640, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company.

The lease is a double net lease with maintenance and real property taxes to be paid by the lessee and insurance costs paid by the Company. Rent began to accrue on the date plant growing commenced on the property, which occurred in July 2017. Rental payments will begin after first harvest, currently expected to be September 2018. The Company will treat the period before September 2018 as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$4.00 per foot. The lease is in good standing as at the date of this Listing Statement.

Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

### ***Farm Property***

In July 2017, the Company entered into a lease agreement for the Farm Property. The lease agreement is for a term of ten years and a monthly rent obligation of \$18,750, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes shall be paid by the lessee and insurance costs paid by the Company. Rent began to accrue on the date plant growing commenced on the property, which occurred in July 2017. Rental payments will begin after first harvest, currently expected to be September 2018. The Company will treat the period before September 2018 as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space. The lease is in good standing as at the date of this Listing Statement.

Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for five year term, on the same terms as provided in the lease agreement.

### ***Powell Property***

In July 2017, the Company entered into a lease agreement for the Powell Property. The lease agreement is for a term of ten years and a monthly rent obligation of \$6,523, subject to annual increases of 3% per year. Maintenance and real property taxes shall be paid by the lessee and insurance paid by the Company. Additional rents will be added to pay landlord back for tenant improvements by the end of the first term of the lease, payments will include annual interest at 12% compounded monthly. The lease is in good standing as at the date of this Listing Statement.

Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

### ***TJ's Las Vegas Property***

The Company intends to develop TJ's Las Vegas Property into a facility suitable for the cultivation, extraction & processing of cannabis products. The Company currently expects the completion of such development to occur on or prior to November 1, 2018, following which, the Company will lease TJ's Las Vegas Property to YMY Ventures, LLC, which is a medical and retail marijuana product manufacturer and cultivation licensee in the State of Nevada.

## **Employees**

As of June 2018, the Company has five employees, some of whom devote their full time to the Company's operations. The Company intends to increase staff as warranted by its operations and market conditions. Three employees have an employment agreement. No employee is covered by a collective bargaining agreement.

### *4.1.4 Competitive Conditions and Positions*

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

While the cannabis industry is in its relative infancy, the industry has become highly competitive and operates only in markets where the cultivation and sale of cannabis is legal under applicable state law (even though it remains illegal under U.S. federal law).

While the Company believes that the marketplace for cannabis is large and growing, many of its competitors have a longer operating history and have significantly greater financial resources and better access to capital. See "*Risk Factors*".

### *4.1.5 Lending and Investment Policies*

Not applicable to the Company.

### *4.1.6 Bankruptcies, Receiverships or Similar Proceedings against the Company*

Not applicable to the Company.

### *4.1.7 Nature and Results of any Material Restructuring Transaction of the Company*

Not applicable to the Company.

### *4.1.8 Social or Environmental Policies that are Fundamental to the Company's Operations*

Not applicable to the Company.

## **4.2 – Asset Backed Securities**

Not applicable to the Company.

## **4.3 – Companies with Mineral Projects**

Not applicable to the Company.

## **4.4 – Companies with Oil and Gas Operations**

Not applicable to the Company.

## 5. Selected Consolidated Financial Information

### 5.1 – Annual Information

The following table sets out selected consolidated financial information, taken from Stem's audited financial statements for the period from inception on June 7, 2016 to September 30, 2016, and Stem's audited financial statements for the year ended September 30, 2017. Each of these financial statements has been prepared in accordance with U.S. GAAP.

Description	Period from June 7, 2016 to September 30, 2016 (audited)	Year ended September 30, 2017 (audited)
Revenue	\$nil	\$326,041
Net (loss) income	(\$87,699)	(\$2,746,652)
Net loss per share (basic and diluted)	(\$0.03)	(\$0.49)
Total Assets	\$2,050,860	\$4,350,464
Total Long-Term Financial Liabilities	\$nil	\$nil

### 5.1 – Quarterly Information

The following table sets out selected consolidated financial information for the most recently completed quarters ending on March 31, 2018. Each of these financial statements has been prepared in accordance with U.S. GAAP.

Description	Three months ended December 31, 2016 (unaudited)	Three months ended March 31, 2017 (unaudited)	Three months ended June 30, 2017 (unaudited)	Three months ended September 30, 2017 (unaudited)	Three months ended December 31, 2017 (unaudited)	Three months ended March 31, 2018 (unaudited)
Revenue	\$nil	\$nil	\$nil	\$326,041	\$309,829	\$309,960
Net (loss) income	(\$546,933)	(\$334,981)	(\$1,238,314)	(\$1,508,338)	(\$687,843)	(\$908,238)
Net loss per share (basic and diluted)	(\$0.11)	(\$0.06)	(\$0.21)	(\$0.24)	(\$0.10)	(\$0.11)
Total Assets	\$2,197,892	\$4,756,420	\$4,519,468	\$4,350,464	\$6,719,398	\$10,694,243
Total Long-Term Financial Liabilities	\$nil	\$nil	\$nil	\$nil	\$nil	\$1,636,547

### 5.2 – Dividends

The Company has not paid dividends in the past and it has no present intention of paying dividends. Future dividends, if any, will be determined by the directors on the basis of earnings, financial requirements and other conditions existing at the time.

### 5.3 – Foreign GAAP

The financial statements of the Company included in this Listing Statement and the selected consolidated financial information presented above have been prepared in accordance with U.S. GAAP and are reported in United States dollars. Certain of the historical financial statements of the Company available through SEDAR at [www.sedar.com](http://www.sedar.com) have been prepared in accordance with IFRS; however, the audited

annual financial statements of the Company as at and for the years ended September 30, 2017 and 2016 and the financial statements subsequent thereto have been prepared in accordance with U.S. GAAP and the Company intends to prepare its financial statements in accordance with U.S. GAAP on a go forward basis.

## 6. Management's Discussion and Analysis

The management's discussion and analysis of the Company ("**MD&A**") for the year ended September 30, 2017 is attached to this Listing Statement as Schedule "D", the MD&A for the period from inception on June 7, 2016 to September 30, 2016 is attached to this Listing Statement as Schedule "E" and the MD&A for the six month period ended March 31, 2018 is attached to this Listing Statement as Schedule "F".

## 7. Market for Securities

This item is not applicable.

## 8. Consolidated Capitalization

The following table sets forth the capitalization of the Company as at September 30, 2017 and June 15, 2018.

Designation of Security	Amounts Authorized	Amount Outstanding as of September 30, 2017	Amount Outstanding as at June 15, 2018
Common Shares <sup>(1)</sup>	100,000,000 <sup>(2)</sup>	\$7,012,603 (5,596,989 Common Shares)	\$14,026,869 (9,222,026 Common Shares)
Long-term Debt	N/A	Nil	\$2,052,000

### Notes:

- (1) As at the date of this Listing Statement, the Company also had 925,000 Stock Options outstanding at a weighted average exercise price of \$2.40.
- (2) On May 31, 2018, the board of directors of the Company unanimously adopted a resolution seeking shareholder approval to amend the Company's articles of incorporation to increase the number of authorized Common Shares from 100,000,000 to 300,000,000.

## 9. Options to Purchase Securities

### Options granted under the Option Plan

The following table sets out the number and details of all outstanding options to purchase securities of the Company as at the date of this Listing Statement:

	<b>Number of Options</b>
Executive officers and past executive officers of the Company as a group and all directors and past directors of the Company who are not also executive officers as a group (6 directors)	350,000
Employees as a group	25,000
Consultants, as a group	550,000
<b>TOTAL</b>	<b>925,000</b>

At the date of grant of the foregoing Stock Options there was no published market for the Company's Common Shares, and the Board of Directors fixed the exercise price at \$2.40 as representing the fair value of the Common Shares. See "*Capitalization – Securities listed and reserved for issuance*".

## 10. Description of the Securities

### Preferred Shares

The Company has no Preferred Shares issued and outstanding as of the date of the Listing Statement.

### Common Shares

The holders of Common Shares have the right to vote on the basis of one vote per share and the right to receive dividends as declared by the Company's board of directors. The holders of such Common Shares have no special rights upon the dissolution or winding-up of the Company, no pre-emptive rights, no conversion or exchange rights or any other rights with respect to such Common Shares. There are no provisions requiring any holder to contribute additional capital to the Company.

### Convertible Debentures

Between May 18, 2018 and June 1, 2018, the Company issued \$1,500,000 principal amount of Convertible Debentures. The Convertible Debentures carry an annual interest rate of 8%, payable quarterly in arrears on the fifth day of each calendar quarter. The Convertible Debentures mature on the earlier of: (i) one (1) year following the issue date; and (ii) five (5) days after the Company has received, in the aggregate, at least \$5.0 million of new equity investment since the issue date. Each holder of a Convertible Debenture has the right to convert all or a portion of the principal amount of Convertible Debentures so held at a conversion rate of \$2.50 per Common Share.

## Prior Sales

The following table sets forth all securities issued by Stem during the 12-month period preceding the date of this Listing Statement:

<u>Date</u>	<u>Number of Shares</u>	<u>Security</u>	<u>Price (US\$)</u>
June 1, 2017 to June 30, 2017	80,832	Common Shares	\$2.40
June 1, 2017	350,000	Options	\$2.40
July 1, 2017 to September 30, 2017	180,250	Common Shares	\$2.40
October 1, 2017 to December 31, 2017	1,057,124	Common Shares	\$2.40
November 17, 2017	100,000	Options	\$2.40
December 7, 2017	50,000	Options	\$2.40
December 7, 2017	41,66	Warrants	\$2.40
January 1, 2018 to March 31, 2018	1,036,252	Common Shares	\$2.40
January 1, 2018	25,000	Options	\$2.40
February 15, 2018	50,000	Options	\$2.40
April 30, 2018	50,000	Options	\$2.40
April 1, 2018 to June 26, 2018	1,084,998	Common Shares	\$2.40

## 11. Escrowed Securities

The table below sets out the number of Common Shares held by principals and certain other shareholders of the Company that are currently or will be held in escrow:

<b>Designation of Class Held in Escrow</b>	<b>Number of Securities Held in Escrow</b>	<b>Percentage of Class</b>
Common Shares	562,173 <sup>(1)</sup>	6.10%

**Note:**

- (1) Such number includes: (i) 50,000 Common Shares owned by Jim Murphy are held in escrow by the Company's counsel, Robert Diener, pursuant to an escrow agreement as collateral for a loan in the amount of \$75,000 (the "Loan") from the Company to Mr. Murphy that provides for the release of the shares to Mr. Murphy upon repayment of the Loan; and (ii) 512,173 Common Shares held by certain of the directors and officers of the Company will be held in escrow by the Company's transfer agent pursuant to an escrow agreement to be entered into by the transfer agent and such persons.

## 12. Principal Shareholders

There were not any shareholders of the Company that own or control or exercise direction over 10% or more of the outstanding Common Shares. To the knowledge of the Company, no voting trust exists with respect to any Common Shares.

## 13. Directors and Officers

The following table and the notes below set out the names and addresses of the Directors and Officers of the Company, their Principal occupations for the past five years, their respective positions with the Company, the date upon which they became directors and the number and percentage of Common Shares owned by them respectively, directly or indirectly.



Name and Address	Principal Occupation During the Preceding Five Years	Director since	Common Shares held	Percentage of Issued Common Shares
<b>Adam Berk</b> <b>Florida, United States</b>	Appointed Chief Executive Officer of the Company on June 6, 2016. Co-President of Consolidated Ventures of Oregon, Inc. between January 2015 and January 2017. Prior thereto, Founder of HYD For Men and PPI.	2016	314,866	3.41%
<b>Steve Hubbard</b> <b>Oregon, United States</b>	Appointed Chief Financial Officer and Secretary of the Company on June 6, 2016. Mr. Hubbard was an independent financial consultant from 2002 to present.	2016	68,333	0.74%
<b>Garrett M. Bender</b> <b>Florida, United States</b>	Principal and Co-Founder of Ascot Development, LLC since 2003.	2016	128,974	1.40%
<b>Lindy Snider</b> <b>Pennsylvania, United States</b>	Founder and Chief Executive Officer of Lindi Skin since July 2003.	2016	41,666	0.45%
<b>Jessica Feingold</b> <b>Denver, Colorado</b>	Of Counsel to MacAllister Garfeld P.C. since May 2015. Prior thereto, Ms. Feingold was the owner and a consultant with E&F Epstein Feingold Consulting Group, LLC between June 2014 and April 2015. She served as Associate General Counsel of the Florida State Trust from December 2013 through June 2014 and as an Associate Attorney with Akerman LLP in Miami, FL from April 2012 through April 2013.	March 6, 2018	10,416	0.11%
<b>Rajiv "Roger" Rai</b> <b>Toronto, Ontario</b>	President of R3 Concepts Inc. and Special Advisor to the Chairman at Rogers Communications Inc. (" <b>Rogers Communications</b> "). Prior thereto, Mr. Rai was Managing Director for E.S. Roger Enterprises from 2004 to 2018 and Vice President, Business Development, Keek Inc. between 2010 and 2016.	May 1, 2018	nil	nil

## Management and Directors

The following are brief biographical descriptions of the management and directors of the Company.

- Adam Berk** Mr. Berk has been a director, President and Chief Executive Officer of the Company since its inception in June 2016. From January 2013 until January 2015 Adam was the CEO of HYD For Men, an artisanal men's grooming company that patented the first solution to extend the life of a razor blade by 400%. HYD For Men is currently sold at HSN, Walgreens, BedBathBeyond, Drugstore. com, Birchbox, GiantEagle, Meijers, and Kinney Drugs. Recently, HYD For Men was acquired by Lucas Investment Group. From January 2015 until January 2017 Adam was the Co-President of Consolidated Ventures of Oregon a Cannabis holding company. Mr. Berk's experience as a founder and principal executive of several start-up companies and skills associated therewith led to the conclusion that he should serve as an executive and director of the Company. From 2002 through 2013, Mr. Berk was employed with Osmio, Inc. (currently GrubHub, an Aramark subsidiary), the first patented web-based corporate expense management system that concentrated on food ordering for law firms, investment banks and consulting firms. He served as chief executive officer of Osmio from 2002-2007.
- Steve Hubbard** Mr. Hubbard has served as Chief Financial Officer, Secretary and a member of the Board of Directors of the Company since its inception in June 2016. He served as Chief Financial Officer and Secretary of Diego Pellecer, Inc., a cannabis-related real estate company From April 2013 through September 2013 and Chief Financial Officer and Secretary of Diego Pellicer Worldwide, Inc. (a publicly reporting company) from September 2013 through December 2014. He served as Chief Financial Officer of Kind Care LLC DBA TJ's Organic Garden from December 2014 through August 2015 and has been Chief Financial Officer of Consolidated Ventures of Oregon, Inc. since August 2015. Commencing several years prior to April 2013, Mr. Hubbard served as an outside management consultant to several early stage companies, primarily providing financial services. Mr. Hubbard's experience as a founder and principal executive of several start-up companies, his experience as an auditor with Arthur Andersen & Co prior to 2012 and the skills associated therewith led to the conclusion that he should serve as a director of the Company.
- Garrett M. Bender** Mr. Bender has served as a member of the Board of Directors of the Company since its inception in June 2016. He is the Principal and Co-Founder of Ascot Development LLC, a real estate development firm, which commenced operations in 2003. He has guided Ascot through numerous acquisition and sale transactions and strategically manages Ascot's land portfolio. Mr. Bender's experience as a founder and principal executive of several start-up companies and the sales and marketing skills associated therewith led to the conclusion that he should serve as a director of the Company.
- Lindy Snider** Ms. Snider has served as a member of the Board of Directors of the Company since its inception in June 2016. She is the founder and for over five years has been CEO of Lindi Skin, the first full line of skin care products for cancer patients. This botanically based skin care line serves the special needs of individuals undergoing cancer treatment and is found in most major cancer centers in the U.S.

Ms. Snider is an active investor in cannabis related businesses. Focused on new business development, brand marketing and investing, Ms. Snider identifies and helps develop innovative companies in the space. She is a passionate entrepreneur and a champion of both start-ups and women-owned businesses. She serves on the following boards and advisories: Sqor.com, Greenhouse Ventures, Intiva, Blazenow, Kind Financial, Elevated Nation, as well as the following philanthropic boards: Fox Chase Cancer Foundation, Cancer Forward, Philadelphia Orchestra, PSPCA, Schuylkill Center for Environmental Education, National Museum of American Jewish History, The Middle East Forum, Shoah Foundation's Next Generation Council, The Ed Snider Youth Hockey Foundation, and The Snider Foundation. Ms. Snider's experience as a founder and principal executive of several start-up companies and her service as an independent director of several for-profit and charitable organizations and the skills associated therewith led to the conclusion that she should serve as a director of the Company.

**Jessica  
Feingold**

Jessica Michelle Feingold is General Counsel of the Company and a member of the Board of Directors of the Company, having been appointed to these positions in March 2018. She is an attorney at Law qualified to practice in the States of Florida, Texas and Colorado and the District of Columbia.

Ms. Feingold has been Of Counsel to McAllister Garfield, P.C. in Denver, CO since May 2015 and served as General Counsel of Medically Correct, LLC d/b/a Incredibles from December 2016 to February 2018. She was the Owner and a Consultant with E & F Epstein Feingold Consulting Group, LLC operating in Arizona and Florida from June 2014 through April 2015. She served as Associate General Counsel of the Florida State Trust from December 2013 through June 2014 and as an Associate Attorney with Akerman LLP in Miami, FL from April 2012 through April 2013.

She attended The George Washington University and received a Bachelor of Arts degree from the University of Miami. She later received a Juris Doctor degree from the Shephard Broad Law Center at Nova Southeastern University and a Master of Laws degree in Real Property development from the University of Miami School of Law.

**Rajiv "Roger"  
Rai**

Mr. Rai was appointed a director of the Company in May 2018. In his capacity as Special Advisor to the Chairman at Rogers Communications, Roger Rai advises Edward Rogers, who is the representative controlling shareholder of Rogers Communications (TSX:RCI.B), on business development, revenue development, partnership development, talent development and sports. Previously, Roger was the Managing Director for E.S. Rogers Enterprises from 2004 to 2018. In that capacity, he gained extensive experience in strategic management services, including business processes assessment and advisory services.

Roger is currently the President of R3 Concepts Inc., a consulting and investments company located in Toronto, Canada. Since 2012, he has also served as an advisor to Chobani, Inc., a retail food services company.

From 2010 to 2016, Roger was the Vice President, Business Development, Keek Inc. (TSXV:KEK). In this capacity, Roger was responsible for all new business and partnership development at the Company.

Before Keek Inc., Roger was the Director of Development at C.O.R.E. Feature Animation, a Company that produced the children's animation movie "The Wild." He was the Founder and VP, Business Development of Fastvibe Inc., a web-streaming equipment and services company located in Toronto. Roger also held various managerial positions at Rogers Cable Systems and Rogers Wireless, one of Canada's largest telecommunications companies.

Roger sits on the Board of Directors for CONSTANTINE Enterprises Inc., a privately held real estate Company based in Toronto, with operations in Canada and the Bahamas. He is one of the founders and on the Board of Directors for the ONEXONE Foundation, a charitable organization focused on global child welfare. Roger holds a Bachelor of Arts from the University of Western Ontario and lives in Toronto.

### **Tenure of Directors**

Directors are appointed at each annual meeting of the shareholders of the Company, and hold their position until the next annual meeting of shareholders unless they resign or are removed in the interim.

### **Audit Committee**

National Instrument 52-110 – *Audit Committees* ("**NI 52-110**") requires Stem to disclose annually certain information concerning the constitution of its Audit Committee and its relationship with its independent auditor, as set forth below.

#### *Audit Committee Charter*

A full text of the Audit Committee Charter is attached as Schedule "G" to this Listing Statement.

#### *Composition of the Audit Committee*

The Audit Committee is currently composed of: Lindy Snider, Steve Hubbard and Roger Rai. Ms. Snider and Mr. Rai are considered independent directors for the purposes of NI 52-110. Ms. Snider, Mr. Hubbard and Mr. Rai are each considered financially literate for the purposes of NI 52-110. The relevant education and experience of the members of the Audit Committee is detailed above.

#### *Pre-Approval Policies and Procedures*

Any proposed permitted non-audit services to be provided by the external auditor to Stem must receive prior approval from the board of directors. The Chief Financial Officer acts as the primary contact to receive and assess any proposed engagements from the external auditor. Following receipt and initial review for eligibility by the Chief Financial Officer, a proposal would then be forwarded to the board of directors for review and confirmation.

#### *External Auditor Service Fees*

Fees billed to Stem for professional services rendered by its former auditor, Anton, Bryson & Schindler LLP, and its current auditor, L J Soldinger Associates, LLC, for the period from inception to September 30, 2016 and for the year ended September 30, 2017 are detailed in the following table:

	Period from June 7, 2016 to September 30, 2016 <sup>(4)</sup>	Fiscal year ended September 30, 2017 <sup>(4)</sup>
Audit Fees <sup>(1)</sup>	\$15,000	\$65,000
Audit Related Fees	\$0	\$0
Tax Fees <sup>(2)</sup>	\$0	\$0
All Other Fees <sup>(3)</sup>	\$0	\$0
<b>Total:</b>	<b>\$15,000</b>	<b>\$65,000</b>

**Notes:**

- (1) Audit fees were for professional services rendered by the auditors for the audit of the Company's annual financial statements as well as services provided in connection with statutory and regulatory filings.
- (2) Tax fees are for tax compliance.
- (3) All other fees for services performed by the Company's auditors.
- (4) These fees only represent professional services rendered and do not include any out-of-pocket disbursements or fees associated with filings made on the Company's behalf. These additional costs are not material as compared to the total professional services fees for each year

*Exemption*

Stem is relying upon the exemption in section 6.1 of NI 52-110. Section 6.1 exempts a "venture issuer" from the requirement to comply with Part 3 "Composition of the Audit Committee" and Part 5 "Reporting Obligations" of NI 52-110.

Other than the Audit Committee and the Compensation Committee, Stem has no board committees at this time.

**Corporate Cease Trade Orders or Bankruptcies**

None of the current directors or officers of Stem or, to the knowledge of Stem, any shareholder holding a sufficient number of securities of Stem to affect materially the control of Stem is, or within the 10 years prior to the date hereof, has been a director or officer of any other issuer that, while that person was acting in that capacity was the subject of a cease trade or a similar order, or an order that denied the other issuer access to any statutory exemptions under Canadian securities legislation, for a period of more than 30 consecutive days or became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that issuer or appointed to hold the assets of that director or officer.

**Penalties or Sanctions**

None of the current directors or officers of Stem, or any shareholder holding a sufficient number of securities of Stem to affect materially the control of Stem, has within the 10 years before the date of this Listing Statement, been the subject of any penalties or sanctions imposed by a court relating to a Canadian securities legislation or by a Canadian securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### Individual Bankruptcies

None of the directors or officers of Stem, or to the knowledge of Stem any shareholder holding sufficient number of securities of Stem to affect materially the control of Stem, or a personal holding company of any such person is, or during the 10 years prior hereto, has been declared bankrupt or made a voluntary assignment into bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

### Conflicts of Interest

- 1) Adam Berk, Chief Executive Officer and a Director of Stem, serves as President and a Director of Opco Holdings, which is the lessee in respect of the Willamette Property and the 42<sup>nd</sup> Street Property. Mr. Berk also owns 3.56% of the issued and outstanding common shares of Opco Holdings.
- 2) Steve Hubbard, Chief Financial Officer, Secretary and a Director of Stem, serves as Secretary and a Director of Opco Holdings, which is the lessee in respect of the Willamette Property and the 42<sup>nd</sup> Property. Mr. Hubbard also owns 0.77% of the issued and outstanding common shares of Opco Holdings.
- 3) Garrett M. Bender, a Director of Stem, owns 1.46% of the issued and outstanding common shares of Opco Holdings.

### 14. Capitalization

The following table sets out the number of Common Shares issued on a non-diluted and fully diluted basis and provides particulars of the Total Public Float and the Total Tradeable Float:

	Number of securities (non-diluted)	Number of Securities (fully diluted)	% of Issued (non diluted)	% of Issued (fully diluted)
<b>Total Outstanding (A)</b>	9,222,026	10,830,358	100.00%	100.00%
<b>Held by Related Persons or employees of the Issuer or Related Persons of the Issuer, or by companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the issuer upon exercise or conversion of other securities held) (B)</b>	1,397,589	1,747,589	15.15%	16.14%
<b>Total Public Float (A – B)</b>	7,824,437	9,082,769	84.85%	83.86%
<b>Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement and securities held by control block holders (C)</b>	1,447,589	1,797,589	15.70%	16.60%

<b>Total Tradeable Float (A - C)</b>	7,774,437	9,032,769	84.30%	83.40%
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### Public Security Holders (Registered)

The following table sets out the range of registered shareholdings of Public Security Holders ((A) - (B) in the Issued Capital Chart):

<b>Range</b>	<b>Number of holders</b>	<b>Total number of securities</b>
<b>1 - 99 securities</b>	32	963
<b>100 - 499 securities</b>	38	7,375
<b>500 - 999 securities</b>	4	2,394
<b>1,000 - 1,999 securities</b>	14	17,705
<b>2,000 - 2,999 securities</b>	9	19,930
<b>3,000 - 3,999 securities</b>	6	21,736
<b>4,000 - 4,999 securities</b>	11	48,146
<b>5,000 or more securities</b>	123	7,706,189
<b>TOTALS</b>	<b>237</b>	<b>7,824,437</b>

### Public Security Holders (Beneficial)

The following table sets out the range of shareholdings of: (i) beneficial holders holding securities in their own name as registered shareholders; and (ii) beneficial holders holding securities through an intermediary where the Company has notice of such holding:

<b>Range</b>	<b>Number of holders</b>	<b>Total number of securities</b>
<b>1 - 99 securities</b>	29	822
<b>100 - 499 securities</b>	36	6,773
<b>500 - 999 securities</b>	4	2,394
<b>1,000 - 1,999 securities</b>	12	13,363
<b>2,000 - 2,999 securities</b>	7	17,294
<b>3,000 - 3,999 securities</b>	4	14,330
<b>4,000 - 4,999 securities</b>	10	43,957
<b>5,000 or more securities</b>	116	7,232,669
<b>SUB TOTALS</b>	<b>218</b>	<b>7,331,602</b>
<b>Unable to confirm</b>	19	492,835
<b>TOTAL</b>	<b>237</b>	<b>7,824,437</b>

**Non-Public Securityholders (Registered)**

The following Table sets out the holdings of non-public securityholders in (B) of the Issued Capital Chart:

Range	Number of holders	Total number of securities
1 - 99 securities	Nil	Nil
100 - 499 securities	Nil	Nil
500 - 999 securities	Nil	Nil
1,000 - 1,999 securities	Nil	Nil
2,000 - 2,999 securities	Nil	Nil
3,000 - 3,999 securities	Nil	Nil
4,000 - 4,999 securities	Nil	Nil
5,000 or more securities	6	1,397,589
<b>TOTALS</b>	<b>6</b>	<b>1,397,589</b>

**Securities listed and reserved for issuance**

The Company has adopted an employee, director and consultant stock plan dated July 27, 2016 (the "**Option Plan**"). Under the Option Plan, the board of directors of the Company may grant Awards of up to 15% of the total number of Common Shares outstanding immediately following the effective date of the Plan, subject to adjustment on January 1 of each year commencing on January 1, 2017.

The following table details all securities convertible or exchangeable into Common Shares as of the date of the Listing Statement:

Description of Security	Date of Issue	Date of Expiry	Exercise Price	Number convertible securities outstanding	Number of Common Shares issuable upon exercise
Stock Options	November 11, 2016	November 14, 2020	\$2.40	200,000 <sup>(1)</sup>	200,000
Stock Options	February 1, 2017	January 31, 2021	\$2.40	100,000 <sup>(2)</sup>	100,000
Stock Options	June 1, 2017	May 31, 2020	\$2.40	100,000 <sup>(3)</sup>	100,000
Stock Options	June 1, 2017	May 31, 2021	\$2.40	50,000 <sup>(4)</sup>	50,000
Stock Options	June 1, 2017	May 31, 2021	\$2.40	50,000 <sup>(4)</sup>	50,000
Stock Options	June 1, 2017	May 31, 2020	\$2.40	50,000 <sup>(3)</sup>	50,000
Stock Options	June 1, 2017	May 31, 2021	\$2.40	100,000 <sup>(3)</sup>	100,000
Stock Options	November 17, 2017	November 16, 2021	\$2.40	100,000 <sup>(5)</sup>	100,000
Stock Options	December 7, 2017	December 6, 2021	\$2.40	50,000 <sup>(3)</sup>	50,000
Warrants	December 7, 2017	December 7, 2019	\$2.40	41,666	41,666
Stock Options	January 1, 2018	December 31, 2020	\$2.40	25,000 <sup>(6)</sup>	25,000
Stock Options	February 15, 2018	February 14, 2021	\$2.40	50,000 <sup>(3)</sup>	50,000
Convertible Note	March 1, 2018	February 28, 2019	\$2.40	\$100,000 principal amount	41,666
Stock Options	April 30, 2018	April 30, 2022	\$2.40	50,000 <sup>(4)</sup>	50,000



Convertible Debentures	May 18, 2018	May 17, 2019	\$2.50	\$150,000 principal amount	60,000
Convertible Debentures	May 22, 2018	May 21, 2019	\$2.50	\$150,000 principal amount	60,000
Convertible Debentures	May 28, 2018	May 27, 2019	\$2.50	\$200,000 principal amount	80,000
Convertible Debentures	May 31, 2018	May 30, 2019	\$2.50	\$150,000 principal amount	60,000
Convertible Debentures	June 1, 2018	May 31, 2019	\$2.50	\$850,000 principal amount	340,000
<b>Total</b>					1,608,332

**Notes:**

- (1) 100,000 Stock Options vested on the date of issue, 50,000 Stock Options will vest 6 months following a registration statement being declared effective in which the underlying Common Shares are registered and the final 50,000 Stock Options will vest 1 year following a registration statement being declared effective in which the underlying Common Shares are registered.
- (2) 33,333 Stock Options vested on the date of issue and 2,222 Stock Options vest each month of the 30 months following the date of issue.
- (3) All Stock Options vested on the date of issue.
- (4) 12,500 Stock Options vest each quarter following the date of issue.
- (5) 50,000 Stock Options vested on the date of issue, 25,000 Stock Options will vest 6 months following the date of issue and 25,000 Stock Options will vest 12 months following the date of issue.
- (6) 10,000 Stock Options vested on the date of issue, 5,000 Stock Options will vest on January 1, 2019 and 10,000 Stock Options will vest on January 1, 2020.

**15. Executive Compensation****General**

For purpose of this Listing Statement:

"**compensation securities**" includes stock options, convertible securities, exchangeable securities and similar instruments including stock appreciation rights, deferred share units and restricted stock units granted or issued by Stem for services provided or to be provided, directly or indirectly, to Stem;

"**Named Executive Officer**" or "**NEO**" means each of the following individuals: (i) each individual, who in respect of Stem, during any part of the most recently completed financial year, served as chief executive officer of the Company, including an individual performing functions similar to a chief executive officer; (ii) each individual, who in respect of Stem, during any part of the most recently completed financial year, served as chief financial officer of the Company, including an individual performing functions similar to a chief financial officer; (iii) in respect of Stem, the most highly compensated executive officer other than the individuals identified in paragraphs (i) and (ii) at the end of the most recently completed financial year whose total compensation was more than \$150,000, as determined in accordance with Form 51-102F6V – *Statement of Executive Compensation – Venture Issuers*, for that financial year; and (iv) each individual who would be named an executive officer under paragraph (iii) but for the fact that the individual was not an executive officer of Stem, and was not acting in a similar capacity, at the end of that financial year; and

"**plan**" includes any plan, contract, authorization or arrangement, whether or not set out in a formal document, where cash, compensation, securities or any other property may be received, whether for one or more persons.

## Compensation Discussion and Analysis

### *Director and NEO Compensation, Excluding Compensation Securities*

Stem did not conduct any material business between June 7, 2016 and August 31, 2016. Since August 31, 2016, the business of Stem has been the review and analysis of property acquisitions, corporate finance transactions and the Arrangement.

Given Stem's size and state of development, Stem has not paid any compensation to its directors or officers, other than Stock Options, from the date of incorporation to the date of this Listing Statement, except as follows:

- Pursuant to an employment agreement between the Company and Mr. Berk dated June 1, 2017, as amended and restated on June 1, 2018 (the "**Berk Employment Agreement**"), Mr. Berk is being compensated with \$10,000 a month as the chief executive officer of the Company.
- Commencing January 2017 through May 2017, Mr. Hubbard was paid \$5,000 per month as a consultant to the Company. Pursuant to an employment agreement between the Company and Mr. Hubbard dated June 1, 2017, as amended and restated on June 1, 2018 (the "**Hubbard Employment Agreement**"), Mr. Hubbard is no longer a consultant of the Company and is being compensated the same \$5,000 a month as the chief financial officer of the Company.

Mr. Berk and Mr. Hubbard are the only NEOs of the Company.

The Compensation Committee is currently composed of Jessica Feingold and Lindy Snider. Ms. Snider is considered to be an independent director for the purposes of NI 52-110. Although not comprised solely of independent directors, the board of directors of the Company believes that the Compensation Committee will be able to carry out its mandate in the same manner as if such committee were comprised entirely of independent directors.

The policies established by the Company to determine compensation of its executive officers are intended to be consistent with its business plan and the strategy and goals, including those set forth in its strategic plan. Compensation of the company's executive officers includes both the payment of a salary, the occasional granting of incentive stock options and an income incentive plan. The following guidelines describe the basis for determining the overall compensation for executive officers of the Company: (i) compensation packages are designed to attract, motivate and retain executive officers toward the long term goals of the business; (ii) executive positions are assessed for relative value of the Company, complexity of work and impact on the overall financial performance; and (iii) compensation for executive positions is periodically reviewed to determine external relativity. Compensation has been set out by the Compensation Committee for the fiscal year ending September 30, 2018. Namely, Mr. Hubbard will continue to be compensated \$5,000 a month as the chief financial officer of the Company, Mr. Berk will continue to be compensated \$10,000 a month as the chief executive officer of the Company and each of the directors will be granted 12,500 Stock Options following the conclusion of each financial quarter of the Company.

The Company and the board of directors of the Company have not considered the risks, if any, associated with the compensation policies and practices of the Company.

The directors of the Company are not permitted to purchase financial instruments, such as futures or equity swaps, which are designed to hedge or offset a decrease in market value of the Company's equity securities.

### ***Employment Agreements***

On June 1, 2017, the Company entered into the Berk Employment Agreement for an initial term of one year, subject to automatic renewals for additional one year periods until terminated, with the remaining term at all times being not less than one year. The Berk Employment Agreement provides for a base salary of \$10,000 per month. Mr. Berk also received a restricted stock grant of 100,000 Common Shares and 50,000 Stock Options exercisable for a period of three years at an exercise price of \$2.40 per Common Share. At the end of the initial one year term of the Berk Employment Agreement, and assuming that the term is extended, Mr. Berk is entitled to receive an additional restricted stock grant of 100,000 Common Shares and 50,000 Stock Options at the then market value, exercisable for a period of three years. The Berk Employment Agreement contains no specified undertaking by the Company covering compensation of Mr. Berk upon: (i) resignation, retirement, or any other termination of employment; (ii) change of control of the Company; or (iii) a change in Mr. Berk's responsibilities (including following a change of control).

On June 1, 2017, the Company entered into the Hubbard Employment Agreement for an initial term of one year, subject to automatic renewals for additional one year periods until terminated, with the remaining term at all times being not less than one year. The Hubbard Employment Agreement provides for a base salary of \$5,000 per month. Mr. Hubbard also received a restricted stock grant of 50,000 Common Shares and 100,000 Stock Options exercisable for a period of three years at an exercise price of \$2.40 per Common Share. At the end of the initial one year term of the Hubbard Employment Agreement, and assuming that the term is extended, Mr. Hubbard is entitled to receive an additional restricted stock grant of 50,000 Common Shares and 100,000 Stock Options at the then market value, exercisable for a period of three years. The Hubbard Employment Agreement contains no specified undertaking by the Company covering compensation of Mr. Hubbard upon: (i) resignation, retirement, or any other termination of employment; (ii) change of control of the Company; or (iii) a change in Mr. Hubbard's responsibilities (including following a change of control).

### ***Stock Option Plans and Other Incentive Plans***

The Company adopted an employee, director and consultant stock plan dated July 27, 2016. Under the Option Plan, the board of directors of the Company may grant Awards of up to 15% of the total number of Common Shares outstanding immediately following the effective date of the Plan. As of the date of this statement, Stem has not granted any Awards pursuant to the Option Plan.

The following is a summary of the principal terms of the Option Plan.

The Option Plan provides that awards may be granted to officers, employees or directors of the Company and its affiliates ("**Eligible Persons**"). The Option Plan permits the board of directors of the Company to grant three types of awards ("**Awards**") to Eligible Persons: (i) a stock appreciation right ("**Stock Appreciation Right**"); (ii) a stock option ("**Stock Option**"); and (iii) a stock award ("**Stock Award**").

Stock Options may be granted alone or in addition to other Awards granted under the Option Plan and may be of two types: (i) incentive Stock Options; and (ii) non-qualified Stock Options. The exercise price per share under a Stock Option is determined by the administrator of the Option Plan; provided, however,

that such exercise price is not less than the fair market value per Common Share on the date the Stock Option is granted, subject to certain exceptions. The term of each Stock Option is fixed by the administrator of the Option Plan and no incentive Stock Option may be exercisable more than 10 years after the date such incentive Stock Option is granted. The Option Plan provides that other terms and conditions may be attached to a particular Stock Option, such terms and conditions to be referred to in an option agreement.

In the event an option holder ceases to be an Eligible Person other than by reason of death, disability or cause, the option holder may exercise any Stock Option granted to him or her to the extent that such Stock Option is exercisable on the date of such termination. In the event an option holder ceases to be an Eligible Person by reason of death or disability, the option holder or his or her representative, as applicable, may exercise any Stock Option granted to him or her to the extent that such Stock Option is exercisable on the date of such death or disability. All outstanding and unexercised Stock Options of an option holder will be cancelled in the event that such person ceases to be an Eligible Person by reason of cause.

Stock Appreciation Rights may be granted either on a stand-alone basis or in conjunction with all or part of any Stock Option granted under the Option Plan. Stock Appreciation Rights granted on a stand-alone basis may be exercisable only at such time or times and to such extent as determined by the administrator of the Option Plan. Stock Appreciation Rights granted in conjunction with all or part of any Stock Option may be exercisable only at the time or times and to the extent that the Stock Options to which they relate are exercisable. Upon the exercise of a Stock Appreciation Right, a holder will be entitled to receive an amount in cash, Common Shares or both, which in the aggregate is equal in value to the difference in the fair market value of the Common Shares at the date of exercise less the fair market value of the Common Shares at the date of grant.

Stock Awards may be directly issued under the Option Plan, subject to such terms, conditions, performance requirements, restrictions, forfeiture provisions, contingencies and limitations as the administrator of the Option Plan may determine.

Subject to adjustment as provided in the Option Plan, the aggregate number of Common Shares which may be delivered under the Option Plan shall not exceed a number equal to 15% of the total number of Common Shares outstanding immediately following the effective date of the Option Plan. Commencing with the year 2017, the maximum number of Common Shares which may be delivered under the Option Plan shall automatically increase by a number sufficient to cause the number of Common Shares covered by the Option Plan to equal 10% of the total number of Common Shares then outstanding, assuming for this purpose the conversion into Common Shares of all outstanding securities that are convertible by their terms (directly or indirectly) into Common Shares. The exercise price per Common Share purchasable under a Stock Option shall be determined by the administrator of the Option Plan; provided, however, that the exercise price per Common Share shall be not less than the Fair Market Value (as defined in the Option Plan) per share on the date the Stock Option is granted, or if the Stock Option is intended to qualify as an incentive Stock Option and is granted to an individual who is a Ten Percent Holder (as defined in the Option Plan), not less than 110% of such Fair Market Value per share. The term of each Stock Option shall be fixed by the administrator of the Option Plan, but no Stock Option shall be exercisable more than 10 years (or five years in the case of an individual who is a Ten Percent Holder) after the date the incentive Stock Option is granted.



Steve Hubbard <sup>(2)</sup>	2017	20,000	Nil	120,000	184,000	Nil	Nil	324,000
	2016	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Garrett M. Bender	2017	Nil	Nil	Nil	56,000	Nil	Nil	56,000
	2016	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Lindy Snider	2017	Nil	Nil	Nil	56,000	Nil	Nil	56,000
	2016	Nil	Nil	Nil	Nil	Nil	Nil	Nil

**Notes:**

- (1) The Black-Scholes option valuation model has been used to determine the grant date fair value of the Stock Options granted. This model is based on various assumptions, including, among others, the dividend yield, expected volatility of the Common Shares price, the risk-free interest rate, the forfeiture rate and the expected life of the Stock Options. For further information respecting such assumptions, please refer to the interim financial statements of the Company for the period ended March 31, 2018, which are available on [www.sedar.com](http://www.sedar.com).
- (2) No additional payments were made to Mr. Berk or Mr. Hubbard for their role as a director of the Company.

***Pension Disclosure***

Stem does not have a pension plan or pension plan benefits.

**16. Indebtedness of Directors and Executive Officers**

No director or officer of the Company or person who acted in such capacity in the last financial year of the Company, or any of other individual who at any time during the most recently completed financial year of the Company was a director of the Company or any associate of the Company, is indebted to the Company, nor is any indebtedness of any such person to another entity the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company.

**17. Risk Factors**

*An investment in our stock involves a high degree of risk. You should carefully consider the following information, together with the other information in this Listing Statement, before buying shares of our stock. If any of the following risks or uncertainties occur, our business, financial condition, and results of operations could be materially and adversely affected and the trading price of our stock could decline.*

***We have a limited operating history and have generated limited revenues.***

We are an early stage business that was founded in 2016, with limited operating history from which to evaluate our 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 CSA 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 U.S. 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 law may preempt state law that legalizes marijuana cultivation and sale.***

While several states, including Oregon and Nevada, have legalized the cultivation and sale of marijuana, marijuana is a Schedule I controlled substance under the CSA. U.S. federal law may be determined to preempt state laws which permit the cultivation and sale of marijuana. In this regard, the Company could be deemed to be facilitating the selling or distribution of marijuana in violation of the CSA. Such violation could lead to criminal prosecution, which could lead to imprisonment and/or the imposition of penalties, fines, or forfeiture. Such action could have a significant impact on the Company's ability to engage in its business which could cause shareholders to lose their entire investment.

***The United States cannabis industry is subject to extensive controls and regulations.***

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company's investments and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's investments' earnings and could make future capital investments or the Company's investments' operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted. Further, state laws on the sale and cultivation of cannabis differ between states. As such, the Company may experience significant regulatory barriers each time it enters a new state.

***The United States cannabis industry is illegal under U.S. federal law.***

**This Listing Statement involves an entity that is expected to continue to derive a portion of its revenues from the cannabis industry in certain states of the United States, which industry is illegal under U.S. federal law.** While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under U.S. federal law. The Company is involved in the cannabis industry in the United States where local and state laws permit such activities or provide limited defenses to criminal prosecutions. Currently, the Company has material ancillary involvement (through the leasing of real estate to cannabis selling or cannabis growing entities) in the cannabis industry in the United States where local state law permits such activities. **The enforcement of relevant laws is a significant risk.**

***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.

***We may have difficulty accessing bankruptcy courts.***

Because marijuana is illegal under U.S. federal law, there is a compelling argument that the federal bankruptcy courts cannot provide relief for parties who engage in marijuana-related businesses. Recent bankruptcy rulings have denied bankruptcy protection for dispensaries upon the justification that businesses cannot violate U.S. federal law and then claim the benefits of federal bankruptcy for the same activity and upon the justification that courts cannot ask a bankruptcy trustee to take possession of and distribute marijuana assets as such action would violate the CSA. Therefore, even though we will not be acting as a dispensary, we may not be able to seek the protection of the bankruptcy courts, and this could materially affect our business.

***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, there 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. We estimate that we will need a minimum of \$1,500,000 to successfully achieve our short-term goals. 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.

***Ability to access public and private capital***

The Company has historically had, and continues to have, access to private capital in Canada and the United States in order to support its continuing operations. The Company expects that all capital requirements will be adequately met through future public or private equity financings in Canada and the United States. However, our business is subject to all of the risks associated with having material ancillary involvement in the cultivation and distribution of cannabis in the United States. As such, there is a risk that conventional private or public offerings of securities or conventional bank financing will not be available to us in the future. In particular, conventional debt financing from Canadian and United States financial institutions has been, and likely will continue to be, unavailable to the Company under the current regulatory environment.

***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 and directors lack experience in running a public company.***

Our officers and directors have either limited or no experience in the management and governance of a public company and will significantly look to the advice of outside professionals in this regard. This lack of experience could lead to such officers and directors making decisions which lack business judgment or are inconsistent with applicable principals of corporate governance. To the extent this occurs, the Company could be detrimentally affected and shareholders' investments may be jeopardized.

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

The lessees in respect of the Willamette Property, 42nd Street Property and the Powell Property are operating companies incorporated and operated by certain of our founding officers, directors and shareholders. Since we did not seek 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 the Multiparty Agreement, should the Company be successful in raising funding and should the U.S. Federal Government amend the CSA 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 Common Shares**

***There is no current public trading market in Canada for our Common Shares and you may not be able to resell our Common Shares.***

As at the date of this Listing Statement, there is no current public trading market for our securities in Canada and our Common Shares are not and have not been quoted on any exchange or quotation system in Canada. 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. Moreover, a successful listing of our Common Shares on the Canadian Securities Exchange may not result in increased liquidity for our Common Shares

***Future issuances of our Common Shares could dilute the interests of existing shareholders.***

We may issue additional Common Shares in the future. The issuance of a substantial amount of Common Shares could have the effect of substantially diluting the interests of our shareholders. In addition, the sale of a substantial amount of Common Shares 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 Shares.

***Should we be required to purchase the related party marijuana businesses of certain shareholders as part of the Multiparty Agreement, you may incur substantial dilution.***

As part of the Multiparty Agreement we entered into with our founding shareholders, in the event we meet certain funding milestones and the U.S. 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 Common Shares resulting in the owners of the operating companies holding, in the aggregate, 75% of issued and outstanding Common Shares, 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 Shares. For the foreseeable future, earnings generated from our operations will be retained for use in our business and not to pay dividends.

***The application of the SEC "penny stock" rules could limit trading activity in the market, and our shareholders may find it more difficult to sell their stock.***

Our Common Shares are subject to the 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 Shares may affect your ability to resell your Common Shares.

***We have yet to establish internal control over our financial reporting.***

If we become a non-venture issuer (as such term is defined in National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings*), 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 face increased costs as a reporting issuer which may affect our profitability.***

We are subject to applicable Canadian securities laws relating to public disclosure. Public disclosure generally involves a substantial expenditure of financial resources. Compliance with these rules and regulations increases our legal and financial compliance costs. Additionally, a successful listing on the Canadian Securities Exchange will increase compliance costs. 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 increasing demands and financial reporting requirements.

***The market price of the Common Shares may be highly volatile.***

The market price of the Common Shares may be highly volatile. Some of the factors that may materially affect the market price of the Common Shares 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 Shares. These factors may materially adversely affect the market price of our Common Shares, 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 Shares.

***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 Common Shares. 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 Common Shares. 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 an "emerging growth company" under applicable United States securities 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 Common Shares 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 the Common Shares may result in a decrease in the market price of the Common Shares, even if our business is doing well.***

The market price of the Common Shares, when and if established, could drop due to sales of a large number of Common Shares 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 Shares.

***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 the Common Shares 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.

***Regulatory scrutiny of Company's interests.***

For the reasons set forth herein, the Company's existing interests in the United States cannabis market, and future investments, if any, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation.

#### **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 U.S. federal law.***

Producing, manufacturing, processing, possessing, distributing, selling, and using marijuana is a federal crime. Under the 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 Common Shares may: (i) expose you personally to criminal liability under U.S. federal law, resulting in monetary fines and jail time; and (ii)

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 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 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 state-licensed marijuana businesses. Producers may not sell their products to any business or person located outside their home state.

***Producers have numerous competitors.***

The marijuana production business is not, by itself, unique. Producers have numerous competitors throughout the State of Oregon and the State of Nevada 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 and Nevada state laws, local governments have the ability to limit, restrict, and ban 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 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 or the State of Nevada 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)**

***Each of our tenants' success depends on its ability to obtain a marijuana production or retail license from the applicable state authority.***

Each of our tenants' success depends on its ability to obtain a recreational marijuana production or retail license from the applicable state authority. Each of our tenants' failure to obtain a marijuana production or retail license from the applicable state authority will have a material adverse effect on its business, and therefore us.

***Our tenants' business is highly regulated.***

Our tenants' 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 tenants will receive the requisite licenses, permits, and approvals to operate its business. Further we cannot predict what kind of regulatory requirements our tenants' 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 and the State of Nevada 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 Listing Statement contains "forward-looking statements" or forward-looking information (in this section, collectively "forward-looking statements"). 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 to you (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 differ 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. Except for the Berk Employment Agreement and the Hubbard Employment Agreement, 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 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 Holdings 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 Shares is not based on a professional appraisal.***

The valuation of the Company and the Common Shares 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 Common Shares, 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 property it owns or leases.

## **18. Promoters**

Within the two years immediately preceding the date of this Listing Statement:

- 1) Adam Berk was considered a promoter of Stem. Mr. Berk took initiative in founding and organizing Stem during June, 2016 and was therefore a promoter of Stem for the purposes of

applicable securities legislation. Mr. Berk and his affiliates hold an approximate 3.41% effective interest in Stem through ownership of 314,866 Common Shares;

- 2) Steve Hubbard was considered a promoter of Stem. Mr. Hubbard took initiative in founding and organizing Stem during June, 2016 and was therefore a promoter of Stem for the purposes of applicable securities legislation. Mr. Hubbard and his affiliates hold an approximate 0.74% effective interest in Stem through ownership of 68,333 Common Shares; and
- 3) Garrett Bender was considered a promoter of Stem. Mr. Bender took initiative in founding and organizing Stem during June, 2016 and was therefore a promoter of Stem for the purposes of applicable securities legislation. Mr. Bender and his affiliates hold an approximate 1.40% effective interest in Stem through ownership of 128,974 Common Shares.

#### **19. Legal Proceedings**

There are no legal proceedings currently affecting the Company, nor is the Company aware of any such proceedings being contemplated.

#### **20. Interest of Management and Others in Material Transactions**

No director, executive officer or promoter of the Company or any person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10 percent of any class of the Company's outstanding voting securities, or an associate or affiliate of any persons or companies referred to in this paragraph, has any material interest, direct or indirect, in any proposed transaction, that has materially affected or will materially affect the Company within the three years preceding the date of this Listing Statement other than as disclosed in this Listing Statement, including in the financial statements and MD&As, which are attached to this Listing Statement.

#### **21. Auditors, Transfer Agents and Registrars**

The Company's auditors are L J Soldinger Associates, LLC, of Deer Park, Illinois. Corporate Stock Transfer is the Company's Registrar and Transfer Agent in the United States and National Issuer Services Ltd. is the Company's Registrar and Transfer Agent in Canada.

#### **22. Material Contracts**

The following material contracts, being contracts entered into other than in the ordinary course of business, have been entered into by the Company since the date of its formation:

- (A) Multiparty Agreement dated August 4, 2016, as revised on October 24, 2016, among Oregon Acquisitions, Gated Oregon, Kind Care, Never Again and Stem;
- (B) Arrangement Agreement dated November 14, 2016, between the Company and Patch International Inc.;
- (C) 10-year lease entered into by the Company in July 2016 in respect of the 42nd Street Property;
- (D) Contract for Sale dated April 15, 2017 in respect of the Farm Property;

- (E) Lease agreement dated July 1, 2017 in respect of the Willamette Property;
- (F) Sub-lease agreement dated July 1, 2017 in respect of the 42nd Street Property;
- (G) Lease agreement dated July 1, 2017 in respect of the Farm Property; and
- (H) Lease agreement dated July 1, 2017 in respect of the Powell Property.

### 23. Interest of Experts

Stem's audited financial statements as at and for the period from inception on June 7, 2016 to September 30, 2016, and Stem's audited financial statements as at and for the year ended September 30, 2017 included in this Listing Statement have been audited by L J Soldinger Associates, LLC and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing. L J Soldinger Associates, LLC is independent of Stem in accordance with the rule of professional conduct applicable to auditors in the United States and Canada.

### 24. Other Material Facts

Other than as set out elsewhere in this Listing Statement, there are no other material facts about the Company and its securities which are necessary in order for this Listing Statement to contain full, true and plain disclosure of all material facts relating to the Company and its securities.

### 25. Financial Statements

Schedule "A" to this Listing Statement contains the audited financial statements for Stem as at and for the period from incorporation on June 7, 2016 to September 30, 2016, Schedule "B" to this Listing Statement contains the audited financial statements for Stem as at and for the year ended September 30, 2017 and Schedule "C" to this Listing Statement contains the unaudited interim financial statements for the three and six months ended March 31, 2018.

### 26. Glossary

As used in this Listing Statement, the following terms have the respective meanings as specified below:

"**42nd Street Property**" means the warehouse facility located at 800 N. 42nd Street in Springfield, Oregon;

"**1934 Act**" means the *Securities Exchange Act of 1934* of the United States of America, as amended from time to time;

"**2014 Cole Memorandum**" has the meaning set forth in Section 3.3 – *Trends, Commitments, Events or Uncertainties*;

"**ABCA**" means the *Business Corporations Act* (Alberta);

"**Arrangement**" has the meaning set forth in Section 3.2 – *Acquisitions and Dispositions – Patch Transaction*;

**"Arrangement Agreement"** means the arrangement agreement dated November 14, 2016 between the Company and Patch whereby the Company agreed to acquire all of the issued and outstanding shares of Patch by way of a plan of arrangement under Section 193 of the ABCA;

**"Awards"** has the meaning set forth in Section 15 – *Executive Compensation – Stock Option Plans and Other Incentive Plans*;

**"Berk Employment Agreement"** has the meaning set forth in Section 15 – *Executive Compensation – Compensation Discussion and Analysis*;

**"Board"** means the board of directors of the Company;

**"Cole Memorandum"** has the meaning set forth in Section 3.3 – *Trends, Commitments, Events or Uncertainties*;

**"Common Shares"** means the shares of common stock in the share capital of the Company;

**"Company"** or **"Stem"** means Stem Holdings, Inc.;

**"Contract for Sale"** has the meaning set forth in Section 3.2 – *Acquisitions and Dispositions – Contract for Sale*;

**"Convertible Debentures"** has the meaning set forth in Section 4.1 – *General – Narrative Description of the Company's Business*;

**"CSA"** means the federal *Controlled Substances Act* which is comprised of Title II of the Comprehensive Drug Prevention and Control Act of 1970;

**"CSA Notice 51-352"** has the meaning set forth in Section 3.3 – *Trends, Commitments, Events or Uncertainties*;

**"DOJ"** has the meaning set forth in Section 3.3 – *Trends, Commitments, Events or Uncertainties*;

**"DoT"** means the Nevada Department of Taxation;

**"Eligible Persons"** has the meaning set forth in Section 15 – *Executive Compensation – Stock Option Plans and Other Incentive Plans*;

**"Farm Property"** means the farm property located at 14336 South Union Hall Road in Mulino, Oregon;

**"FinCEN"** has the meaning set forth in Section 3.3 – *Trends, Commitments, Events or Uncertainties*;

**"FinCEN Memorandum"** has the meaning set forth in Section 3.3 – *Trends, Commitments, Events or Uncertainties*;

**"FQAT"** has the meaning set forth in Section 4.1 – *General – Narrative Description of the Company's Business*;

**"Gated Oregon"** means Gated Oregon Holdings, LLC, a limited liability company formed under the laws of the State of Oregon;

"**Hubbard Employment Agreement**" has the meaning set forth in Section 15 – *Executive Compensation – Compensation Discussion and Analysis*;

"**Initial Properties**" means, collectively, the Willamette Property, the 42nd Street Property and the Farm Property;

"**JOBS Act**" means the *Jumpstart Our Business Startups Act of 2012*;

"**Kind Care**" means Kind Care Holdings, LLC, a limited liability company formed under the laws of the State of Oregon;

"**Leahy Amendment**" has the meaning set forth in Section 3.3 – *Trends, Commitments, Events or Uncertainties*;

"**Loan**" has the meaning set forth in Section 11 – *Escrowed Securities*;

"**Listing Statement**" means this listing statement of the Company;

"**MD&A**" means the management's discussion and analysis of the Company;

"**Milestone 1**" has the meaning set forth in Section 4.1 – *General – Narrative Description of the Company's Business*;

"**Multiparty Agreement**" means the multiparty agreement dated as of August 4, 2016, as amended on October 24, 2016, among Oregon Acquisitions, Gated Oregon, Kind Care, Never Again and Stem;

"**Never Again**" means Never Again Real Estate, LLC, a limited liability company formed under the laws of the State of Oregon;

"**NI 52-110**" means National Instrument 52-110 – *Audit Committees*;

"**NRS**" means the Nevada Revised Statutes;

"**Offering**" has the meaning set forth in Section 4.1 – *General – Narrative Description of the Company's Business*;

"**OLCC**" means the Oregon Liquor Control Commission;

"**Opco**" means, collectively, the operating companies (and any affiliates thereof) leasing the Initial Properties (and any other properties acquired or controlled by Stem), including Opco Holdings and Oregon Acquisitions;

"**Opco Holdings**" means Opco Holdings, Inc., a corporation formed under the laws of the State of Oregon, and its wholly owned subsidiaries;

"**Option Plan**" has the meaning set forth in Section 14 – *Capitalization – Securities listed and reserved for issuance*;

"**Oregon Acquisitions**" means Oregon Acquisitions JV, LLC, a limited liability company formed under the laws of the State of Oregon;

"**Patch**" means Patch International Inc., a company incorporated in the Province of Alberta, Canada;

"**Powell Property**" means the property located at 7827 SE Powell Blvd. in Portland, Oregon;

"**Preferred Shares**" means the shares of preferred stock in the share capital of the Company;

"**SAR**" has the meaning set forth in Section 3.3 – *Trends, Commitments, Events or Uncertainties*;

"**SEC**" means the Securities and Exchange Commission of the United States of America;

"**Sessions Memorandum**" has the meaning set forth in Section 3.3 – *Trends, Commitments, Events or Uncertainties*;

"**SOX Act**" means the *Sarbanes-Oxley Act of 2002*;

"**SQAT**" has the meaning set forth in Section 4.1 – *General – Narrative Description of the Company's Business*;

"**Stock Appreciation Right**" has the meaning set forth in Section 15 – *Executive Compensation – Stock Option Plans and Other Incentive Plans*;

"**Stock Award**" has the meaning set forth in Section 15 – *Executive Compensation – Stock Option Plans and Other Incentive Plans*;

"**Stock Option**" has the meaning set forth in Section 15 – *Executive Compensation – Stock Option Plans and Other Incentive Plans*;

"**THC**" means delta-9-tetrahydrocannabinol;

"**TJ's Las Vegas Property**" means the warehouse facility located at 2808 Synergy Street, North Las Vegas, Nevada 89030;

"**TQAT**" has the meaning set forth in Section 4.1 – *General – Narrative Description of the Company's Business*;

"**U.S.**" means the United States;

"**U.S. Attorneys**" has the meaning set forth in Section 3.3 – *Trends, Commitments, Events or Uncertainties*;

"**U.S. GAAP**" means generally accepted accounting principles in the United States of America that the SEC has identified as having substantial authoritative support, as supplemented by Regulation S-X under the 1934 Act, as amended from time to time;

"**USAM**" has the meaning set forth in Section 3.3 – *Trends, Commitments, Events or Uncertainties*; and

"**Willamette Property**" means the retail store located at 1027 Willamette Street, Eugene, Oregon.

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**SCHEDULE "A"**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2017**

(as attached)



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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2017

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-55751

**STEM HOLDINGS, INC.**

(Exact name of registrant as specified in charter)

Nevada

61-1794883

\_\_\_\_\_  
(State or other jurisdiction of  
incorporation or organization)

\_\_\_\_\_  
(I.R.S. Employer  
Identification No.)

20283 State Rd 7, Building 400, Suite 420  
Boca Raton, FL 33498  
(Address of principal executive offices) (Zip Code)

Registrant's telephone Number: (561) 237-2931  
Securities registered pursuant to section 12(g) of the Act:  
Common Stock par value \$.001

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer”, “non-accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer  (Do not check if a smaller reporting company)

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
 Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter. No market exists for the Company’s common stock

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date: 6,966,194 shares of common stock par value \$0.001 as of January 12, 2018

**DOCUMENTS INCORPORATED BY REFERENCE: NONE**

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## PART I

This Form 10-K contains some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements involve risks and uncertainties. Forward-looking statements include statements regarding, among other things, (a) our projected sales, profitability, and cash flows, (b) our growth strategies, (c) anticipated trends in our industries, (d) our future financing plans and (e) our anticipated needs for working capital. They are generally identifiable by use of the words “may,” “will,” “should,” “anticipate,” “estimate,” “plans,” “potential,” “projects,” “continuing,” “ongoing,” “expects,” “management believes,” “we believe,” “we intend” or the negative of these words or other variations on these words or comparable terminology. These statements may be found under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” as well as in this Form 10-K generally. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results.

Any or all of our forward-looking statements in this report may turn out to be inaccurate. They can be affected by inaccurate assumptions we might make or by known or unknown risks or uncertainties. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially as a result of various factors, including, without limitation, the risks outlined under “Risk Factors” and matters described in this Form 10-K generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. You should not place undue reliance on these forward-looking statements.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to publicly update any forward-looking statements, whether as the result of new information, future events, or otherwise.

### ITEM 1. DESCRIPTION OF BUSINESS.

#### Corporate Structure

Stem Holdings, Inc. was organized on June 7, 2016 as a Nevada corporation under Chapter 78 of the Nevada Revised Statutes. The Company’s principal office is located at 20283 State Rd 7, Boca Raton, FL 33498. The Company has one subsidiary, Patch International, Inc., which is wholly-owned by the Company. Patch International, Inc. has no business operations at this time.

#### Overview of the Business

The Company was formed to purchase, lease and improve certain real estate properties (the “Properties”), initially in the State of Oregon, which are or will be utilized as either state-licensed cannabis selling retail establishments or state-licensed cannabis growing facilities. The Company operates as a real estate holding company, with a direct focus on providing properties advantageous to growers and sellers in the regulated cannabis industry, and does not intend to initially engage in any direct operations with respect to its properties other than activities related to the leasing of properties, funding of capital improvements and administration of its leases and provision of financing to certain lessees. As such, its revenues will only comprise passive rental and interest income and its operating expenses will be limited to the general and administrative expense associated with such activity.

The initial business of the Company was detailed in a multiparty agreement dated as of August 4, 2016, as revised on October 24, 2016 (“Multiparty Agreement”), by and among the Company and the following entities, which are affiliates of the founders of the Company: Oregon Acquisitions, JV LLC, Gated Oregon Holdings LLC, Kind Care Holdings, LLC, and Never Again Real Estate, LLC. The Multiparty Agreement detailed the following:

- the relationships between the various founders of the Company and their respective affiliated entities, as

well as the initial share ownership in the Company;

- certain proposed real estate transactions to be undertaken by the Company together with the business terms and structures related to these transactions;
- the rental terms and lessees for the properties identified by the parties;
- the terms of a right of first refusal with respect to the acquisition of additional properties;
- certain terms related to additional investment in the Company by the founders and the terms and conditions thereof; and
- the terms and conditions of the potential acquisition of the operating companies and three other currently operating companies by the Company under specified circumstances.

The Multiparty Agreement contemplates that the initial Properties owned by the Company and identified in the Multiparty Agreement (and as further described below) will be leased by the Company to subsidiaries of OpCo Holdings, Inc. (“OpCo”). Opco is a company formed in 2016 by the Company’s founders and their affiliates for the purpose of operating multiple cannabis-related businesses initially in the State of Oregon, and the Company’s founders and their affiliated entities directly and indirectly collectively own approximately 24.06% of the outstanding stock of Opco.

The following is an overview of acquisitions completed by the Company:

In September 2016, the Company entered into a 10-year lease with respect to certain property located in Springfield, OR (the “42nd Street Property”) 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 has subleased this space effective July 1, 2017.

On November 1, 2016, the Company acquired certain property located in Eugene, OR (the “Willamette 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 “Powell 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 plus fees. 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. The Company and note holder have come to an agreement subsequent to September 30, 2017 to reduce by \$75,000 the balance due under the note, due to the Seller breaching certain sections of the Purchase and Sale Agreement dated November 15, 2016. As of September 30, 2017, the balance owed on the note was approximately \$4,000.

On April 15, 2017, the Company entered into a “Contract for Sale” for a Farm Property in Mulino OR (the “Mulino Property”), pursuant to which the seller will sell the premises to the Company upon the completion of the Company’s due diligence 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 which will be reduced by a rental credit of approximately \$135,000, which is equivalent to nine months’ rent at \$15,000 a month. In addition, the Seller has granted the Company a credit to be reflected upon closing in the amount \$9,500 for improvements made by the Company to the property. The Company expects that the closing of the property purchase will take place in January 2018. In connection with the purchase of the property, the Company will make a cash payment in the amount of \$362,254 and will issue a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. In April 2017, in order for the Company to make use of the premises pending closing of the purchase of the property, the Company agreed to lease the premises from the seller for a term commencing April 5, 2017 and expiring on the earlier of: (i) the termination of the Contract for Sale by either party thereto in accordance with its terms; and (ii) October 5, 2017. The lease requires the Company to pay a base rental fee of \$15,000 for the first nine months with no lease deposit required. All taxes accruing during the lease term (including real estate taxes and personal property taxes) are the responsibility of the Company. In October 2017, both parties agreed to extend the lease through January 2018.

## **Leasing of Properties**

Willamette Property. In July 2017, the Company entered into an operating lease agreement with a marijuana dispensary, as lessee, to move into the Company’s Willamette Property. The lease agreement is for a base term of ten years and a monthly rent obligation of \$13,800, subject to annual increases of 3% per year, plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the lessee and insurance costs paid by the Company. Rent commenced in August 2017 and the lease is in good standing as of the date of this Report. Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for one five-year term, on the same terms as provided in the lease agreement.

42<sup>nd</sup> Street Property. In July 2017, the Company entered into a lease agreement for the 42nd Street Property. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$64,640, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the lessee and insurance costs paid by the Company. Rent will begin to accrue on the date plant growing commences on the property and rental payments will begin at the end of their cannabis growing season by the end of April 2018 and we therefore expect cash payments under the lease to commence in May 2018. The Company expects to treat such period as a deferred rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$3.00 per foot. The lease is in good standing as at the date of this Report. Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

Mulino Property. In July 2017, the Company entered into a lease agreement for the Mulino Property. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$18,750, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes shall be paid by the lessee and insurance costs paid by the Company. Rent will begin to accrue on the date plant growing commences on the property and rental payments will begin at the end of their cannabis growing season by the end of April 2018 and we therefore expect cash payments under the leases to commence in May 2018. The Company expects to treat such period as deferred rent for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space. Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

Powell Property. In July 2017, the Company entered into a lease agreement for the Powell Property. The lease agreement is for a term of ten years and a monthly rent obligation of \$6,523, subject to annual increases of 3% per year. Maintenance and real property taxes shall be paid by the lessee and insurance paid by the Company. Additional rents will be added to pay landlord back for tenant improvements by the end of the first term of the lease. Payments will include annual interest at 12% compounded monthly. Rent will begin to accrue July 2017 through January 2018 and rental payments will begin February 2018, or when the dispensary begins business. The Company expects to treat such period as deferred rent for accounting purposes. Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

## **Significant Events and Milestones Under Multiparty Agreement**

Per the terms of the Multiparty Agreement, once the Company has invested an aggregate of \$10 million in real estate properties (“**Milestone 1**”), the Company will be obligated to purchase two additional specified properties from parties to the Multiparty Agreement for aggregate consideration of \$1,000,000 within ninety (90) days of achieving Milestone 1.

A right of first refusal granted to the Company to acquire each new parcel of real property identified by various parties to the Multiparty Agreement as suitable for production or retail of cannabis in the State of Oregon. This right of first refusal shall remain in effect so long as the Company has invested at least an aggregate of \$8 million in real properties by January 30, 2019 and has invested at least an aggregate of \$13 million in real properties by January 30, 2019.

Notwithstanding the foregoing, the achievement of the aforementioned milestones with respect to the continuation of the right of first refusal will be excused if aggregate rental income from all Company-owned properties does not meet the following criteria:

### **(i) First Quarter Achievement Threshold (“FQAT”)**

- \$1.2 million (annualized) during any calendar quarter, commencing on or after October 1, 2017;
- Right of first refusal may be terminated within 12 months following the last day of the quarter in which the FQAT is met;
- Stem may revive the right of first refusal by investing an additional \$5 million into additional real properties by the last day of the 12-month period.

### **(ii) Second Quarter Achievement Threshold (“SQAT”)**

- \$3.2 million (annualized) during any calendar quarter, commencing on or after January 1, 2019;
- Right of first refusal may be terminated within 12 months following the last day of the quarter in which the SQAT is met; and
- Stem may revive the right of first refusal by investing an aggregate of \$8 million into additional real properties by the last day of the 12-month period.

### **(iii) Third Quarter Achievement Threshold (“TQAT”)**

- \$5 million (annualized) during any calendar quarter, commencing on or after June 1, 2019;
- Right of first refusal may be terminated within 12 months following the last day of the quarter in which the TQAT is met; and
- Stem may revive the right of first refusal by investing an aggregate of \$13 million into additional real properties by the last day of the 12-month period.

Each of the properties owned or leased by the Company will be leased to subsidiaries of Opco Holdings. The Company will not initially be directly involved in the operation of these properties or in the growing or sale of cannabis.

Each of the subsidiaries of Opco Holdings is obligated to purchase Preferred Shares under certain specified terms and conditions:

#### *Obligation to Purchase Preferred Shares*

After the Company invests an aggregate of \$13 million in real properties, but before the Company is legally able to engage in the operating of the properties, all subsidiaries of Opco Holdings are required by the Multiparty



Agreement to allocate an amount equal to at least 50% of its post-tax, net operating income to purchase Preferred Shares on the following terms:

- (a) Redeemable 20 years after issuance;
- (b) Annual dividend of 3%;
- (c) Convertible into Common Shares at the higher of:
  - (i) \$10 per Common Share (adjusted for share exchange, reclassification, combination, dividend, split, or similar event); or
  - (ii) Average closing price of Common Shares for the 20 trading days prior to conversion date; and
- (d) Such other preferences, rights, privileges, and limitations upon which the parties may mutually agree.

#### *Company purchase of Opco businesses*

As long as the Company has fully satisfied all of its obligations and milestones pursuant to the Multiparty Agreement, the Company will have the obligation to acquire the business operations of Opco Holdings and its subsidiaries, and Oregon Acquisitions, Gated Oregon and Kind Care shall each have the obligation to sell such operations, within a reasonable time after the Company receives a legal opinion that the operation of the Opco marijuana businesses in the State of Oregon by Stem will not violate any federal or state laws. However, the Company has no reason to believe that a change in federal law is forthcoming or likely either in the near term or long term, and accordingly there is no assurance that such a purchase will occur.

Upon the acquisition of Opco's business operations (if it occurs), all Preferred Shares issued to Opco shall be converted into Common Shares.

#### **Growth Strategy**

The Company's business plan involves the potential deployment of approximately \$13,000,000 in capital to purchase, lease and build-out turnkey marijuana facilities over three phases:

- **Phase 1:** \$3,000,000 to acquire and improve one dispensary, one indoor growing facility and one outdoor growing facility;
- **Phase 2:** \$5,000,000 to acquire and improve one dispensary, two indoor growing facilities and one outdoor growing facility;
- **Phase 3:** \$5,000,000 to acquire and improve one dispensary, two indoor growing facilities and one outdoor growing facility.

The timing of this growth strategy will be based on the availability of funding and appropriate facilities to the Company.

#### *Principal Products and Markets*

The Company's principal operations relate to the leasing of properties, funding of capital, tenant improvements and administration of its leases and provision of financing to certain lessees. As such, its revenues will only comprise passive rental and interest income and its operating expenses will be limited to the general and administrative expense associated with such activity. The Company's principal market is in the State of Oregon.

In July 2017, the Company commenced rental operations through real estate leases with entities that engage in the cultivation, processing and sale of cannabis. As at September 30, 2017, the Company recorded approximately \$326,000 in rental income for the three months ended September 30, 2017.

#### *Production and Sales*

The Company's business requires that it possess or be in a position to access specialized knowledge and expertise regarding the state-licensed cannabis industry and those persons and entities who are involved in the industry. The Company believes that its management has such specialized expertise and experience, and the Company retains legal counsel that has recognized expertise in the industry. The Company does not believe that any aspect of its business is either: (i) cyclical or seasonal; or (ii) dependent on any particular franchise or license or other agreement to use a patent, formula, trade secret, process or trade name. The Company has not identified any specific environmental protection issues which will affect its business. The Company does not own identifiable intangible properties.

The Company is dependent on the financial solvency of its lessees and revenues could be adversely affected in a material way should any lessee not be able to maintain lease payments on a regular or consistent manner. Notwithstanding the foregoing, the Company believes that no property is so identified with a particular tenant that the Company could not identify and obtain a successor lessee in the event of any default by a tenant in the payment of rent. Given that the Company has not achieved a critical mass of properties, the default by any single tenant will have a material impact on the Company's finances for an indeterminate period of time.

The Company does not believe that its operations are dependent on any factors within the general economy. However, any material changes in either U.S. federal law enforcement priorities or the law of the State of Oregon affecting the cultivation and sale of cannabis could have a material impact on the Company's business, particularly since the growth, marketing, sale, and use of marijuana is illegal under federal law.

### **Company Funding**

#### Private Placement Transactions

The Company has sold shares of its common stock in private placement transactions under the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "**Securities Act**"), and Regulation D promulgated thereunder and certain exemptions of the laws of the jurisdictions where any offering is made. In particular, as of January 8, 2018, the Company has conducted the following private placement transactions:

- In June 2016, the Company issued 2,750,000 shares of founders' common stock at \$0.001 per share;
- In July and August 2016, the Company conducted its initial private placement transaction selling 1,060,000 shares of its common stock at \$0.15 per share to unaffiliated investors, resulting in gross proceeds of \$159,000;
- Beginning in August 2016, the Company commenced an offering of Company Common Stock at \$2.40 per share. Through January 11, 2018, the Company has sold an aggregate of 2,308,245 shares in this offering with gross proceeds of \$5,539,800. This offering, as amended, is ongoing.

#### Share Issuances to Consultants

- On December 1, 2016, the Company entered into a 1 year services agreement and as part of that agreement entered into a private placement and issued 50,000 shares of its common stock and received cash in the amount of \$7,500 (\$0.15 per share). The Company also issued to the consultant options to purchase 200,000 shares of Company common stock for a period of four years at an exercise price of \$2.40 per share.
- On January 1, 2017, the Company entered into a services agreement with a consultant to provide accounting and reporting services and agreed to issue 10,000 shares of common stock. On June 1, 2017, the agreement was amended to provide for an issuance of an aggregate of 50,000 shares of Company common stock which was valued at \$120,000 (\$2.40 per share). The Company also issued to the consultant options to purchase 100,000 shares of Company common stock for a period of four years at an exercise price of \$2.40 per share.
- On June 1, 2017, the Company entered into a services agreement with a consultant to provide certain financial services and agreed to issue 50,000 shares of common stock as part of the compensation for those services, which were valued at \$120,000 (\$2.40 per share).

Investors who acquired shares of our common stock in the foregoing private placement transactions were all accredited investors and were required to complete, execute and deliver a subscription agreement and related documentation, which included customary representations and warranties, certain covenants and restrictions and indemnification provisions.

### **Patch Transaction**

In November 2016, the Company entered into an Arrangement Agreement (the “Arrangement Agreement”) with Patch International Inc. (“Patch”), a company incorporated in the Province of Alberta, Canada, whereby the Company agreed to acquire all of the issued and outstanding shares of Patch by way of a plan of arrangement under Section 193 of the ABCA (the “Arrangement”). 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. As of the time of the Arrangement Agreement, Patch did not have any operations and was considered a dormant entity.

On January 20, 2017, the Company completed the Arrangement and issued 1,048,782 Common Shares to the former shareholders of Patch. The aggregate cash held by Patch at the closing was approximately \$2,400,000, after accounting for buyout payments made to Patch shareholders who declined to participate in the transaction.

### **Employees**

As of September 30, 2017, the Company had five employees, some of whom devote their full time to the Company’s operations. The Company intends to increase staff as warranted by its operations and market conditions. Three employees have an employment agreement. No employee is covered by a collective bargaining agreement.

### **Website.**

The Company operates a website at [www.stemholdings.com](http://www.stemholdings.com)

## **ITEM 1A. RISK FACTORS**

Smaller reporting companies are not required to provide the information required by this item.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

N/A

## **ITEM 2. PROPERTIES**

In February 2017, the Company entered into a 1-year lease for the occupancy of the Company’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 September 2016, the Company entered into a 10-year lease with respect to certain property located in Springfield, OR (the “42nd Street Property”) with 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 has subleased this space effective July 1, 2017.

On November 1, 2016, the Company acquired certain property located in Eugene, OR (the “Willamette 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 plus fees. 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. The Company and note holder have come to an agreement subsequent to September 30, 2017 to reduce by \$75,000 the balance due under the note, due to the Seller breaching certain sections of the Purchase and Sale Agreement dated November 15, 2016. As of September 30, 2017, the balance owed on the note was approximately \$4,000.

On April 5, 2017, the Company agreed to lease a property in Mulino, OR upon the following terms and conditions. The term of the lease commenced on April 5, 2017 and expires the earlier of: (i) the termination of the Contract for Sale (see below) by either party thereto in accordance with its terms; and (ii) October 5, 2017. The lease requires the Company to pay a base rental fee of \$15,000 per month. All taxes (including real estate taxes and personal property taxes) are the responsibility of the Company.

On April 15, 2017, the Company entered into a “Contract for Sale” for a Farm Property in Mulino OR (the “Mulino Property”), pursuant to which the seller will sell the premises to the Company upon the completion of the Company’s due diligence 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 which will be reduced by a rental credit of approximately \$135,000, which is equivalent to nine months’ rent at \$15,000 a month. In addition, the Seller has granted the Company a credit to be reflected upon closing in the amount \$9,500 for improvements made by the Company to the property. The Company expects that the closing of the property purchase will take place in January 2018. In connection with the purchase of the property, the Company will make a cash payment in the amount of \$362,254 and will issue a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. In April 2017, in order for the Company to make use of the premises pending closing of the purchase of the property, the Company agreed to lease the premises from the seller for a term commencing April 5, 2017 and expiring on the earlier of: (i) the termination of the Contract for Sale by either party thereto in accordance with its terms; and (ii) October 5, 2017. The lease requires the Company to pay a base rental fee of \$15,000 for the first nine months with no lease deposit required. All taxes accruing during the lease term (including real estate taxes and personal property taxes) are the responsibility of the Company. In October 2017, both parties agreed to extend the lease through January 2018.

## **Leasing of Properties**

Willamette Property. In July 2017, the Company entered into an operating lease agreement with a marijuana dispensary, as lessee, to move into the Company's acquired property located at the Willamette Property. The lease agreement is for a base term of ten years and a monthly rent obligation of \$13,800, subject to annual increases of 3% per year, plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the lessee and insurance costs paid by the Company. Rent commenced in August 2017 and the lease is in good standing as at the date of this Report. Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for one five-year term, on the same terms as provided in the lease agreement.

42<sup>nd</sup> Street Property. In July 2017, the Company entered into a lease agreement for the 42nd Street Property. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$64,640, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the lessee and insurance costs paid by the Company. Rent will begin to accrue on the date plant growing commences on the property and rental payments will begin at the end of their cannabis growing season by the end of April 2018 and we therefore expect cash payments under the lease to commence in May 2018. The Company expects to treat such period as a deferred rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$3.00 per foot. The lease is in good standing as at the date of this Report. Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

Mulino Property. In July 2017, the Company entered into a lease agreement for the Mulino Property. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$18,750, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes shall be paid by the lessee and insurance costs paid by the Company. Rent will begin to accrue on the date plant growing commences on the property and rental payments will begin at the end of their cannabis growing season by the end of April 2018 and we therefore expect cash payments under the leases to commence in May 2018. The Company expects to treat such period as deferred rent for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space. Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

Powell Property. In July 2017, the Company entered into a lease agreement for the Powell Property. The lease agreement is for a term of ten years and a monthly rent obligation of \$6,523, subject to annual increases of 3% per year. Maintenance and real property taxes shall be paid by the lessee and insurance paid by the Company. Additional rents will be added to pay landlord back for tenant improvements by the end of the first term of the lease. Payments will include annual interest at 12% compounded monthly. Rent will begin to accrue July 2017 through January 2018 and rental payments will begin February 2018, or when the dispensary begins business. The Company expects to treat such period as deferred rent for accounting purposes. Upon the expiration of the term of ten years, the lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

## **ITEM 3. LEGAL PROCEEDINGS**

We are subject from time to time to litigation, claims and suits arising in the ordinary course of business. As of the date of this Annual Report, we were not a party to any material litigation, claim or suit whose outcome could have a material effect on our financial statements.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

#### MARKET INFORMATION

The Company's common stock is not currently listed on any exchange or quotation service and, as a result, there is no market for such stock.

#### Holders

As of January 12, 2018 there were 6,966,194 shares of common stock outstanding and approximately 227 stockholders of record.

#### Transfer Agent and Registrar

Our transfer agent is Corporate Stock Transfer, 3200 Cherry Creek Dr. South Suite 430 Denver, CO 80209; telephone (303) 282-4800.

#### Dividend Policy

We have never paid any cash dividends on our Common Stock and do not anticipate paying any cash dividends on our Common Stock in the foreseeable future. We intend to retain future earnings to fund ongoing operations and future capital requirements of our business. Any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

#### RECENT SALES OF UNREGISTERED SECURITIES

Below is a list of securities sold by us from Inception (June 7, 2016) through January 8, 2018 which were not registered under the Securities Act

- In June 2016, the Company issued 2,750,000 shares of founders' common stock at \$0.001 per share;
- In July and August 2016, the Company conducted its initial private placement transaction selling 1,060,000 shares of its common stock at \$0.15 per share to unaffiliated investors, resulting in gross proceeds of \$159,000;
- Beginning in August 2016, the Company commenced an offering of Company Common Stock at \$2.40 per share. Through January 8, 2018, the Company has sold an aggregate of 2,308,245 shares in this offering with gross proceeds of \$5,539,800. This offering, as amended is ongoing.

#### Share Issuances to Consultants

- On December 1, 2016, the Company entered into a 1-year services agreement and as part of that agreement entered into a private placement and issued 50,000 shares of its common stock and received cash in the amount of \$7,500 (\$0.15 per share). The Company also issued to the consultant options to purchase 200,000 shares of Company common stock for a period of four years at an exercise price of \$2.40 per share.
- On January 1, 2017, the Company entered into a services agreement with a consultant to provide accounting and reporting services and agreed to issue 10,000 shares of common stock as part of the



compensation for those services. On June 1, 2017, the agreement was amended to provide for an issuance of an aggregate of 50,000 shares of Company common stock, which were valued at \$120,000 (\$2.40 per share). The Company also issued to the consultant options to purchase 100,000 shares of Company common stock for a period of four years at an exercise price of \$2.40 per share.

- On June 1, 2017, the Company entered into a services agreement with a consultant to provide certain financial services and agree to issue 50,000 shares of common stock as part of the compensation for those services, which were valued at \$120,000 (\$2.40 per share).

The securities issued in the above-mentioned transactions were issued in connection with private placements exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended, pursuant to the terms of Section 4(2) of that Act and Rule 506 of Regulation D.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.**

### **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 year ended September 30, 2017, the Company was an early stage company which was only engaged in initial capital formation, initial property purchases, leasing activities and general and administrative activities related to the formation and early operation of the company. Given that the Company was only formed on June 7, 2016, the comparative results for the prior year are not relevant.

## Summary of Results

	Year Ended September 30, 2017	Inception (June 7, 2016) to September 30, 2016
Revenues	\$ 326,041	\$ 0.00
Net (loss)	\$ (2,746,652)	\$ (87,699)
Basic and diluted earnings (loss) per share	\$ (0.49)	\$ (0.03)

### Comparison of the results of operations for the year ended September 30, 2017 compared to the Period from Inception (June 7, 2016) through September 30, 2016

Because the 2016 period was only a short period from inception, which operations were concentrated in startup and raising funds to commence operations, we have chosen not to compare those results against the full year results for 2017 as those comparisons would not be informative. Below is our discussion of the results of operations for the year ended September 30, 2017.

The Company had revenues during the year ended September 30, 2017 of \$326,041, which primarily comprised of straight lining the rent we expect from our four leases. Under US GAAP, our rental income from the properties is earned on a straight-line basis over the entire expected life of the rent agreement, including the free rent period we have provided until each lessor ends its cannabis growing season. As of September 30, 2017, only the Willamette Property lessor had begun cash payments under the lease. We expect the remaining three lessors to commence cash payments under their three leases in May 2018.

In the year ended September 30, 2017 we incurred consulting costs of \$203,000. We expended those fees as we have yet to build up a significant employee base and currently outsource certain tasks to consultants. We expect in the upcoming year to increase our consulting fees as we continue to grow, even though we do expect to increase staffing, as we do not expect that growth will be commensurate with our growth from operations in the near term.

In the year ended September 30, 2017 we incurred professional fees of approximately \$273,000. Those fees are primarily for legal, accounting and related services in regards to our being a public company in both the United States and Canada. We expect as we grow our operations these costs will continue to grow.

In the year ended September 30, 2017, we incurred general and administrative costs of approximately \$829,000. Those costs include payroll, depreciation and amortization, insurance, rent expense and other general costs. We expect that these costs will increase as we increase our operations.

In the year ended September 30, 2017, we impaired advances totaling approximately \$297,000 to the entities we currently lease to. We made these advances to assist these entities in their start up. We impaired these advances due to the start-up nature of the entities. Should we make advances in the future prior to the entities commencing profitable operations, it's possible we may need to impair those advances.

In the year ended September 30, 2017, we incurred stock based compensation of approximately \$1.475 million, primarily the result of grants of stock and options to officers, directors and consultants. We expect that we will continue to use equity in the form of our common stock and options or warrants to compensate our employees and to reduce the cash compensation we will need to outlay to consultants in the upcoming year as we continue to grow our operations and devote our cash resources to acquiring new and improving our existing properties.

### Transaction with Patch International, Inc.

On January 20, 2017, the shareholders of Patch International, Inc. voted to be acquired by the Company. As a result, the merger with Patch International, Inc. closed and the Company now has received an additional approximately

\$2.4 million which was on Patch's books at the time of the acquisition, net of the approximately \$54,000 paid to dissenting Patch International, Inc. shareholders.

### **Properties**

In September 2016, the Company entered into a 10-year lease with respect to certain property located in Springfield, OR (the "42nd Street Property") 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 has subleased this space effective July 1, 2017. The 42<sup>nd</sup> Street Property is a 16,000-sq. ft. indoor cannabis growing facility.

On November 1, 2016, the Company acquired certain property located in Eugene, OR (the "Willamette Property") for a total cash purchase price plus closing costs of approximately \$918,000. The Willamette Property is an operating cannabis dispensary.

On February 6, 2017, the Company acquired certain real property located at 7827 SE Powell Blvd, Portland, OR 97206 (the "Powell 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 Powell Property is a cannabis dispensary.

The note is non-interest bearing requires four monthly payments of \$75,000 plus a final payment for the remaining amount due immediately thereafter plus fees. 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. The Company and note holder have come to an agreement subsequent to September 30, 2017 to reduce by \$75,000 the balance due under the note, due to the Seller breaching certain sections of the Purchase and Sale Agreement dated November 15, 2016. As of September 30, 2017, the balance owed on the note was approximately \$4,000.

On April 15, 2017, the Company entered into a “Contract for Sale” for a Farm Property in Mulino OR (the “Mulino Property”), pursuant to which the seller will sell the premises to the Company upon the completion of the Company’s due diligence 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 which will be reduced by a rental credit of approximately \$135,000, which is equivalent to nine months’ rent at \$15,000 a month. In addition, the Seller has granted the Company a credit to be reflected upon closing in the amount \$9,500 for improvements to the property made by the Company. The Company expects that the closing of the property purchase will take place in January 2018. In connection with the purchase of the property, the Company will make a cash payment in the amount of \$362,254 and will issue a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. In April 2017, in order for the Company to make use of the premises pending closing of the purchase of the property, the Company agreed to lease the premises from the seller for a term commencing April 5, 2017 and expiring on the earlier of: (i) the termination of the Contract for Sale by either party thereto in accordance with its terms; and (ii) October 5, 2017. The lease requires the Company to pay a base rental fee of \$15,000 for the first nine months with no lease deposit required. All taxes accruing during the lease term (including real estate taxes and personal property taxes) are the responsibility of the Company. In October 2017, both parties agreed to extend the lease through January 2018.

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. Each of these properties will be leased on a double net basis to qualified tenants. The Company will not be involved in the operation of these properties or in the growing or sale of cannabis.

The leases noted above all contain provisions in which the 10-year timetable for rent payments the individual renters incur under the leases do not begin until such time as the first cannabis growing season for the renters is completed. For the Willamette Property, that period ended at the end of July 2017, and rent payments commenced in August 2017. For the other three properties, the Company currently estimates that the growing season will end at the end of April 2018 and rent payments will commence in May 2018.

## LIQUIDITY AND FINANCIAL CONDITION

### Liquidity and Capital Resources

The Company had cash of \$391,389 as of September 30, 2017. Our primary uses of cash have been for salaries, fees paid to third parties for professional services, property operating expenses, general and administrative expenses, and the acquisition and development of rental properties. All funds received have been expended in the furtherance of growing the business. We have received funds from financing activities such as from the sale of our common stock. The following trends are reasonably likely to result in changes in our liquidity over the near to long term:

- An increase in working capital requirements to finance our current business,
- Acquisition and buildout of rental properties;
- Addition of administrative and sales personnel as the business grows and
- The cost of being a public company.

Subsequent to September 30, 2017, we have raised an additional approximately \$2.5 million in our private placements and have also raised \$200,000 in short term notes. Our efforts to raise additional capital are ongoing.

We currently have committed that we would need to spend approximately \$2.2 million on capital expenditures for the expansion and buildout of our Powell and Springfield properties, and in addition, approximately \$1.525 million to purchase the Mulino Property. These capital expenditures are contingent upon several factors including the Company obtaining financing for the development of the properties and the construction of the tenant improvements in such amount and on such terms and provisions as are acceptable to the Company.

We have used our available funds to fund our operating expenses, pay our obligations, acquire and develop rental properties, and grow our company. We need to raise significant additional capital or debt financing to acquire new properties, to develop existing properties, and to assure we have sufficient working capital for our ongoing operations and debt obligations. There is no guarantee that such funding will be available to the Company at a viable cost, if at all.

## CRITICAL ACCOUNTING POLICIES

### Revenue Recognition

The Company recognizes rental revenue from tenants, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured.

The Company makes estimates of the collectability of its tenant receivables related to base rents, straight-line rent and other revenues. In the current fiscal year, the Company began significant rental operations. The Company expects its analysis of any accounts receivable and evaluates the adequacy of the allowance for doubtful accounts, it considers such things as historical bad debts, tenant creditworthiness, current economic trends, facility operating performance, lease structure, developments relevant to a tenant's business, and changes in tenants' payment patterns. Specifically, for straight-line rent receivables, the Company's assessment includes an estimation of a tenant's ability to fulfill its rental obligations over the remaining lease term.

### 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.

## CONTRACTUAL OBLIGATIONS AND 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.

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.

On April 15, 2017, the Company entered into a "Contract for Sale" for a Farm Property in Mulino OR (the "Mulino Property"), pursuant to which the seller will sell the premises to the Company upon the completion of the Company's due diligence 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 which will be reduced by a rental credit of approximately \$135,000, which is equivalent to nine months' rent at \$15,000 a month. In addition, the Seller has granted the Company a credit to be reflected upon closing in the amount \$9,500 for improvements made by the Company to the property. The Company expects that the closing of the property purchase will take place in January 2018. In connection with the purchase of the property, the Company will make a cash payment in the amount of \$362,254 and will issue a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. In April 2017, in order for the Company to make use of the premises pending closing of the purchase of the property, the Company agreed to lease the premises from the seller for a term commencing April 5, 2017 and expiring on the earlier of: (i) the termination of the Contract for Sale by either party thereto in accordance with its terms; and (ii) October 5, 2017. The lease

requires the Company to pay a base rental fee of \$15,000 for the first nine months with no lease deposit required. All taxes accruing during the lease term (including real estate taxes and personal property taxes) are the responsibility of the Company. In October 2017, both parties agreed to extend the lease through January 2018.

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.

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 Company'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.

#### OFF-BALANCE SHEET ARRANGEMENTS

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

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The financial information required by Item 8 begins on the following page.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
Stem Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Stem Holdings, Inc. as of September 30, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended September 30, 2017 and for the period from inception on June 7, 2016 through September 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Stem Holdings, Inc. as of September 30, 2017 and 2016 and the results of its operations and its cash flows for the year ended September 30, 2017 and for the period from inception on June 7, 2016 through September 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ LJ Soldinger Associates, LLC  
Deer Park, Illinois  
January 16, 2018



**Stem Holdings, Inc.**  
**Consolidated Statements of Financial Position**

	September 30, 2017	September 30, 2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 391,389	\$ 798,198
Prepaid expenses	106,466	7,000
Subscriptions receivable	100,000	1,170,000
<b>Total current assets</b>	<u>597,855</u>	<u>1,975,198</u>
<b>Property and equipment, net</b>	<u>3,258,850</u>	<u>-</u>
<b>Other assets</b>		
Due from related parties		20,412
Project costs	10,000	41,250
Deposits	185,318	14,000
Deferred rent	298,441	-
Total other assets	<u>493,759</u>	<u>75,662</u>
<b>Total Assets</b>	<u>\$ 4,350,464</u>	<u>\$ 2,050,860</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable and accrued expenses	\$ 101,377	\$ 19,059
Due to related parties	16,500	34,750
Notes payable	47,902	-
<b>Total Current Liabilities</b>	<u>165,779</u>	<u>53,809</u>
<b>Shareholders' Equity</b>		
Preferred stock, Series A; \$0.001 par value; 50,000,000 shares authorized, none outstanding as of September 30, 2017 and September 30, 2016 respectively	-	-
Preferred stock, Series B; \$0.001 par value; 50,000,000 shares authorized, none outstanding as of September 30, 2017 and September 30, 2016 respectively	-	-
Common stock; \$0.001 par value; 100,000,000 shares authorized; 6,354,860 and 4,734,163 shares issued, issuable and outstanding as of September 30, 2017 and September 30, 2016 respectively	6,433	4,734
Additional paid-in capital	7,012,603	2,480,016
Subscription receivable		(400,000)
Accumulated deficit	(2,834,351)	(87,699)
Total equity	<u>4,184,685</u>	<u>1,997,051</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 4,350,464</u>	<u>\$ 2,050,860</u>

The accompanying notes are an integral part of these financial statements

**Stem Holdings, Inc.**  
**Consolidated Statement of Operations**

	<b>For the year Ended September 30, 2017</b>	<b>For the period from Inception (June 7, 2016) to September 30, 2016</b>
<b>Revenues</b>	\$ 326,041	\$ -
Consulting Fee's	203,000	-
Professional Fee's	273,399	54,000
General and administration	827,907	33,699
Impairment of advance-related party	297,085	-
Stock based compensation	1,475,545	-
<b>Total expenses</b>	<u>3,076,936</u>	<u>87,699</u>
<b>Operating loss</b>	\$ (2,750,895)	\$ (87,699)
<b>Other income and expenses</b>		
Interest expense	(975)	-
Interest income	5,218	-
Total other income	<u>4,243</u>	<u>-</u>
Net loss before income taxes	(2,746,652)	(87,699)
Provision for income taxes	-	-
<b>Net loss for the period</b>	<u>\$ (2,746,652)</u>	<u>\$ (87,699)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.49)</u>	<u>\$ (0.03)</u>
<b>Basic and diluted weighted average common shares outstanding</b>	<u>5,596,989</u>	<u>2,684,936</u>

The accompanying notes are an integral part of these financial statements

**STEM HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

Description	Common Stock		Additional Paid-in Capital	Subscription Receivable	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
<b>Balance , June 7, 2016 (inception)</b>	-	-	-	-	-	-
Founders issuance	2,750,000	2,750				2,750
Issuance of common shares in private placement	1,817,497	1,817	2,087,683			2,089,500
Issuance of common shares for subscription receivable	166,666	167	399,833	(400,000)		
Costs paid in private placements			(7,500)			(7,500)
Net loss for period					(87,699)	(87,699)
<b>Balance - September 30, 2016</b>	<b><u>4,734,163</u></b>	<b><u>4,734</u></b>	<b><u>\$2,480,016</u></b>	<b><u>\$ (400,000)</u></b>	<b><u>\$ (87,699)</u></b>	<b><u>1,997,051</u></b>
Common stock issued for cash	1,412,363	1,432	3,157,142		-	3,158,574
Issuance of common stock for subscription receivable	41,667	100	99,900		-	100,000
Amendment and collection of 2016 subscription receivable	(83,333)	(83)	(200,000)	400,000		199,917
Options issued to consultant			560,878			560,878
Options issued to Officers and Directors			314,667			314,667
Common stock issued to Officers	150,000	150	360,000			360,000
Common stock issued for services	100,000	100	240,000			240,000
Net loss	-	-	-		(2,746,652)	(2,746,652)
<b>Balance - September 30, 2017</b>	<b><u>6,354,860</u></b>	<b><u>6,433</u></b>	<b><u>\$7,012,603</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (2,834,351)</u></b>	<b><u>\$ 4,184,435</u></b>

The accompanying notes are an integral part of these financial statements

**Stem Holdings, Inc.**  
**Consolidated Statement of Cash Flows**

	<b>For the year Ended September 30, 2017</b>	<b>For the period from Inception (June 7, 2016) to September 30, 2016</b>
<b>Cash Flows from Operating Activities:</b>		
Net loss for the period	(2,746,652)	\$ (87,699)
<b>Adjustments to reconcile net loss to cash used in operations</b>		
Stock-based compensation	1,475,545	-
Impairment of advance-related party	297,085	-
Depreciation and amortization	129,217	-
<b>(Increase) decrease in operating assets:</b>		
Prepaid expenses	113,034	(7,000)
Deposits and other assets	-	(14,000)
Deferred revenue	(298,441)	-
<b>Increase (decrease) in operating liabilities:</b>		
Accounts payable and accrued expenses	82,318	19,059
<b>Net Cash Flows Used In Operating Activities</b>	<b>(947,894)</b>	<b>(89,640)</b>
<b>Cash Flows from Investing Activities:</b>		
Fixed asset purchases	(2,990,365)	-
Intangible property expenditures	(52,190)	-
Project cost expenditures	(10,000)	(6,500)
Advances to related entities	(276,674)	(20,412)
Deposits for leasehold improvements	(171,318)	-
<b>Net Cash Flows used in Investing Activities</b>	<b>(3,500,547)</b>	<b>(26,912)</b>
<b>Financing Activities:</b>		
Proceeds from issuance of common shares	4,528,742	922,250
Private placement costs paid	-	(7,500)
Proceeds shareholder advances	11,250	-
Repayments of shareholder advances	(29,500)	-
Principle payments on notes payable	(468,860)	-
<b>Net Cash Flows Provided By Financing Activities</b>	<b>4,041,632</b>	<b>914,750</b>
Net increase in cash and cash equivalents	(406,809)	798,198
Cash and cash equivalents at beginning of period	798,198	-
<b>Cash and cash equivalents at end of period</b>	<b>\$ 391,389</b>	<b>\$ 798,198</b>
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 975	\$ -
Cash paid for taxes	\$ -	\$ -
<b>Non-Cash Supplemental information</b>		
Subscription receivable	\$ 100,000	\$ 1,170,000
Purchase of real estate with seller financing	\$ 300,000	\$ -
Financed insurance	\$ 212,500	\$ -
Project costs paid by shareholders on behalf of the Company	\$ -	\$ 34,450
Project costs transferred to PP&E	\$ 41,250	\$ -

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

Stem Holdings, Inc.  
Notes to Consolidated Financial Statements

## **1. Incorporation and operations and Liquidity**

Stem Holdings, Inc. (the “Company”) is a Nevada corporation incorporated on June 7, 2016. The Company intends to purchase, improve, and lease 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 intends to enter into 4 leases for these properties (see Note 11).

As shown in the accompanying consolidated financial statements, the Company has experienced recurring losses, and has accumulated a deficit of approximately \$2.8 million as of September 30, 2017. For the Twelve months ended September 30, 2017 we had a net loss of approximately \$2.75 million. The Company believes that its purchase of the farm property in Mulino, Oregon to be probable (see Note 9), and will require the Company to invest approximately \$1.525 million in its purchase in the coming years. The Company has entered into four leases with tenants in which it has committed the Company to improve those properties which will require additional funding in the amount of \$2.2 million (see Note 11). In addition, the Company continues to work towards acquiring additional properties to lease to cannabis operators to grow its business.

To date, the Company has raised substantial funds through private placements. After the September 30, 2017 year end, the Company has continued to raise funds in its private placements, raising in excess of \$2.5 million as of the date of these financial statements, and the Company has raised \$200,000 in short term loan proceeds. In addition, the Company is currently in initial discussions with potential investors to invest in the Company at significantly higher amounts. The Company also expects that its cash outflow from operation will decrease significantly in fiscal year 2018 as three of its four subleases to cannabis operators begin generating cash flow in the third quarter of the fiscal year. As the Company expects its cash outflows from operations to decrease significantly after the second quarter of Fiscal 2018 and its current cash balance plus expected private placement and other investment proceeds to allow it to continue operating and build out its properties.

## **2. Summary of significant accounting policies**

### **Basis of preparation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

### **Principals of Consolidation**

The accompanying consolidated financial statements include the accounts of Stem Holdings, Inc. and its wholly-owned subsidiary, Patch International, Inc. All material intercompany accounts, transactions, and profits have been eliminated in consolidation.

### **Revenue Recognition**

The Company recognizes rental revenue from tenants, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured.

The Company makes estimates of the collectability of its tenant receivables related to base rents, straight-line rent and other revenues. In the current fiscal year, the Company began significant rental operations. The Company considers such things as historical bad debts, tenant creditworthiness, current economic trends, facility operating

performance, lease structure, developments relevant to a tenant's business, and changes in tenants' payment patterns in its its analysis of accounts receivable and its evaluation of the adequacy of the allowance for doubtful accounts. Specifically for straight-line rent receivables, the Company's assessment includes an estimation of a tenant's ability to fulfill its rental obligations over the remaining lease term.

### **Real Estate Acquisition Valuation**

All assets acquired and liabilities assumed in an acquisition of real estate are measured at their acquisition date fair values. The acquisition value of land, building and improvements are included in real estate investments on the accompanying consolidated balance sheets. Acquisition pursuit costs associated with asset acquisitions are capitalized. The Company has early adopted ASU 2017-01, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as businesses acquisitions. As a result of early adopting ASU 2017-01, real estate acquisitions did not meet the definition of a business combination and were deemed asset acquisitions, and the Company therefore capitalized its acquisition pursuit costs associated with these acquisitions.

### **Reclassifications**

Certain amounts in the Company's consolidated financial statements for prior periods have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods.

### **Use of estimates**

The preparation of these 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. The significant estimates included in these financial statements are those associated with the assumptions used to value options issued to consultants and the estimated rent payment deferral period at inception of its cannabis operation subleases. Actual results may differ from these estimates.

### **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.

### **Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash. As of September 30, 2017, the Company had deposits in a major financial institution in excess of the FDIC insurance limit. The Company believes the risk of loss to be minimal as it maintains its cash balances at well capitalized financial institutions.

### **Carrying value, recoverability and impairment of long-lived assets**

The Company follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 360 to evaluate its long-lived assets. The Company’s long-lived assets, which include property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company does not test for impairment in the year of acquisition of properties so long as those properties are acquired from unrelated third parties.

The Company assesses the recoverability of its long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of long-lived assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Fair value is generally determined using the asset’s expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated and amortized over the newly determined remaining estimated useful lives.

The Company considers the following to be some examples of important indicators that may trigger an impairment review: (i) significant under-performance or losses of assets relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of assets or in the Company’s overall strategy with respect to the manner or use of the acquired assets or changes in the Company’s overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company’s stock price for a sustained period of time; and (vi) regulatory changes. The Company evaluates assets for potential impairment indicators at least annually and more frequently upon the occurrence of such events.

Through September 30, 2017 the Company has not experienced impairment losses on its long-lived assets.

### **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 in order to exercise their option. All amounts shown capitalized prior to acquisition of a property are included under the caption of Project Costs in the balance sheet.

### **Income Taxes**

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of currently due plus deferred taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting carrying amounts and the respective tax bases of assets and liabilities, and are measured using tax rates and laws that are expected to be in effect when the differences are expected to be recovered or settled.



Valuation allowances are provided against deferred tax assets if it is more likely than not that the deferred tax assets will not be realized.

The Company follows the guidance of FASB ASC 740-10 which relates to the Accounting for Uncertainty in Income Taxes, which seeks to reduce the diversity in practice associated with the accounting and reporting for uncertainty in income tax positions. This interpretation prescribes a comprehensive model for financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns.

### **Fair value of financial instruments**

As defined in the authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

To estimate fair value, the Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable.

The authoritative guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (“Level 1” measurements) and the lowest priority to unobservable inputs (“Level 3” measurements). The three levels of the fair value hierarchy are as follows:

Level 1 — Observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.

Level 2 — Other inputs that are observable, directly or indirectly, such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 — Unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

In instances in which multiple levels of inputs are used to measure fair value, hierarchy classification is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

### **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 common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated based on the weighted-average number of outstanding common shares plus the effect of dilutive potential common shares, using the treasury stock method. The Company’s calculation of diluted net loss per share excludes potential common shares as of September 30, 2017 as the effect would be anti-dilutive (i.e. would reduce the loss per share). As of September 30, 2017, the Company had issued 650,000 options exercisable into the common stock of the Company outstanding (see Note 9).

### **Advertising Costs**

The Company follows the policy of charging the cost of advertising to expense as incurred. Advertising expense was \$35,557 for the year ended June 30, 2017 and \$0 for the period from inception through September 30, 2016.

### **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.

### **Rental properties**

Rental properties are carried at cost, less accumulated depreciation and amortization. Betterments, major renovations and certain costs directly related to the improvement of rental properties are capitalized. Maintenance and repair expenses are charged to expense as incurred. Depreciation is recognized on a straight-line basis over estimated useful lives of the assets, which range from 5 to 39 years. Tenant improvements are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the assets.

### **Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation and is depreciated using the straight-line method over the assets’ estimated useful life as follows:

Buildings	20 years
Leasehold improvements	Shorter of term of lease or economic life of improvement
Furniture and equipment	5 years
Signage	5 years
Software and related	5 years

Normal maintenance and repairs for equipment are charged to expense as incurred, while significant improvements are capitalized.

Because as of the date of these financial statements it was determined that the acquisition of the Mulino Farm property (see Note 11) had become probable, the Company has treated the improvements made to the property through September 30, 2017 as if they were building improvements.

### **Related parties**

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal with if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

### **Recent Accounting Guidance**

#### *Financial Instruments – Credit Losses*

In June 2016, the FASB issued a new standard to replace the incurred loss impairment methodology under current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for us beginning January 1, 2021. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. We are currently evaluating the impact of this standard on our consolidated financial statements, including accounting policies, processes, and systems.

#### *Leases*

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. We will be required to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented using a modified retrospective approach, with certain practical expedients available.

The standard will be effective for us beginning January 1, 2020. The standard will have a material impact on our consolidated balance sheets, but will not have a material impact on our consolidated income statements. The most significant impact will be the recognition of ROU assets and lease liabilities for operating leases. We are currently evaluating the impact of this standard on our consolidated financial statements, including accounting policies, processes, and systems.

#### *Financial Instruments – Recognition, Measurement, Presentation, and Disclosure*

In January 2016, the FASB issued a new standard related to certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard will be effective for us beginning January 1, 2019. We are currently evaluating the impact of this standard on our consolidated financial statements, including accounting policies, processes, and systems.

*Revenue from Contracts with Customers*

In May 2014, the FASB issued a new standard related to revenue recognition. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method).

The standard will be effective for us beginning January 1, 2019. We are currently evaluating the impact of this standard on our consolidated financial statements, including accounting policies, processes, and systems.

### 3. Note Receivable

On October 28, 2016, the Company loaned \$100,000 to certain officers and shareholders of the Company, under a promissory note (the "Note") which was due March 30, 2017 and bears interest at the rate of 12% per annum. The Note provided for monthly interest payments in the amount of \$1,000 commencing December 1, 2016 until the Note was fully paid. On March 15, 2017, an extension was granted through July 1<sup>st</sup>, 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. Subsequent to September 30, 2017, the Company sold the receivable in lieu of a cash payment, in the amount of \$75,000, to one of its contractors performing improvement work on one of its properties in exchange for the contractor reducing the balance owed by the Company on the work performed by \$75,000. The Company has treated the \$75,000 as additional leasehold improvement in these financial statements.

### 4. Property, Plant & Equipment

At September 30, 2017 property and equipment consisted of the following:

Automobile	\$	18,275
Signage		19,118
Furniture and equipment		102,890
Leasehold improvements		1,573,044
Architectural and Design		122,581
Buildings and property improvements		1,499,969
Software and related		52,190
Subtotal		<u>3,388,067</u>
Accumulated depreciation and amortization		<u>(129,217)</u>
Property, plant and equipment, net		<u><u>3,258,850</u></u>

- (1) Because the Company believes it is probable that it will close on the Mulino property (see Note 9), the Company has treated the costs to improve the property as building improvements and not as project costs as of September 30, 2017.

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 and requires four monthly payments of \$75,000 plus a final payment for the remaining amount due immediately thereafter plus fees. 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. The Company and note holder have come to an agreement subsequent to September 30, 2017 to reduce by \$75,000 the balance due under the note, due to the Seller breaching certain sections of the Purchase and Sale Agreement dated November 15, 2016. As of September 30, 2017, the balance owed on the note was approximately \$4,000

Depreciation and amortization expense was \$129,217 for the period ended September 30, 2017

### 5. 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 was 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 issued shares of its common stock based on a price of \$2.40 per common share, with the number of shares 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. Two shareholders, representing less than 2% of Patch shares outstanding have chosen to not vote for the merger. Under Canadian law, the Company was required 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, but in essence as a private placement, because Patch was a dormant entity with its only asset being cash, with no liabilities (they were required to be fully extinguished prior to the completion of the merger), and with no operations other than incurred professional fees to remain a public entity in Canada.

## 6. 2016 Stock Plan

In 2016, the Company adopted a plan to allow the Company to compensate prospective and current employees, directors and consultants through the issuance of equity instruments of the Company. The plan has an effective life of 10 years. The plan is administered by the board of directors of the Company until such time as the board transfers responsibility to a committee of the board. The plan is limited to issuing common shares of the Company up to 15% of the total shares then outstanding. No limitations exist on any other instruments issuable under the plan. In the event of a change in control of the Company, all unvested instruments issued under the plan become immediately vested.

## 7. Notes Payable

As of February 2017, the Company entered into a 10-month premium finance agreement in partial consideration for an insurance policy in the principal amount of \$212,500. 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. As of September 30, 2017, the obligation left on the note is \$43,640.

## 8. Income Taxes

The income tax expense (benefit) consisted of the following for the fiscal year ended September 30, 2017 and the period from June 7, 2016 (inception) through September 30, 2016:

	September 30, 2017	September 30, 2016
Total current	\$ -	\$ -
Total deferred	-	-
	<u>\$ -</u>	<u>\$ -</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The following is a reconciliation of the expected statutory federal income tax provision to the actual income tax benefit for the fiscal year ended September 30, 2017 and the period from June 7, 2016 (inception) through September 30, 2016:

	September 30, 2017	September 30, 2016
Federal statutory rate	\$ (934,000)	\$ (30,000)
State taxes, net of federal benefit	-	-
Effect of change in US Tax rates for deferral items	208,000	-
Other	-	-
Change in valuation allowance	726,000	30,000
	<u>\$ -</u>	<u>\$ -</u>



In the table above, the expected tax benefit is calculated at the 2017 statutory rate of 34%. The effect for temporary timing differences are also calculated at the 34% statutory rate effective for fiscal year ended September 30, 2018. Long-term temporary differences are calculated at the 25% statutory rate effective for years ending on or after December 31, 2018.

Significant components of the Company's deferred tax assets and liabilities were as follows for the fiscal year ended September 30, 2017 and the period from June 7, 2016 (inception) through September 30, 2016:

	September 30, 2017	September 30, 2016
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$ 546,000	\$ 30,000
Equity based compensation	204,000	
Impairment of loan receivable	75,000	
Depreciation	6,000	-
<b>Total deferred tax assets</b>	<b>831,000</b>	<b>30,000</b>
<b>Deferred tax liabilities</b>		
Deferred revenue	75,000	-
<b>Total deferred tax liabilities</b>	<b>75,000</b>	<b>-</b>
Net deferred tax assets	756,000	30,000
Less valuation allowance	(756,000)	(30,000)
<b>Net deferred tax assets (liabilities)</b>	<b>\$ -</b>	<b>\$ -</b>

At September 30, 2017, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$2,182,000. The federal and state net operating loss carryforwards will expire beginning in 2036.

During the fiscal year ended September 30, 2017 and the, the Company recognized no amounts related to tax interest or penalties related to uncertain tax positions. The Company is subject to taxation in the United States and various state jurisdictions. The Company currently has no years under examination by any jurisdiction.

## 9. Shareholders' Equity

### Preferred shares

The Company has no preferred shares issued and outstanding as of September 30, 2017.

### Common shares

The holders of common shares are not entitled to receive dividends at this time, however, are entitled to one vote per share at meetings of the Company.

A summary of stock-based compensation in the form of stock grants for the year ended September 30, 2017 is as follows:

#### Stock Grants:

	Shares	Stock Based Compensation Expense
Officers (common stock)	150,000	\$ 360,000
Non-Employments Consultants (common stock)	100,000	\$ 240,000
Total	<u>250,000</u>	<u>\$ 600,000</u>

For both the employee and non-employee common stock grants noted above were valued at \$2.40 per share for the year ended September 30, 2017. All grants vested immediately

The Company received subscriptions in private placement offerings and received amounts for its acquisition completed for the following shares from inception on June 7, 2016 through September 30, 2016:

- Immediately after inception, 2,750,000 common shares were issued at \$0.001 per share to founders for \$2,750.
- During the period from inception through September 30, 2016, 1,010,000 common shares were issued at \$0.15 per share to unaffiliated investors for cash proceeds of \$151,500.
- In the period from inception through September 30, 2016 974,163 common shares were issued at \$2.40 per share raising gross cash proceeds of \$768,000 and \$1,570,000 in subscription receivables (see below)

The Company received subscriptions in private placement offerings completed for the following shares in the year ended September 30, 2017:

- In the year ended September 30, 2017, the Company issued 50,000 shares of common stock at \$0.15 per share, raising gross proceeds of \$7,500
- In the year ended September 30, 2017, 355,248 common shares were issued at \$2.40 per share to unaffiliated investors raising gross cash proceeds of \$752,600 and \$100,000 in subscription receivables (see below).

### Subscription receivable

During the twelve months ended September 30, 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.

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 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.

On September 27, 2017, the Company received a subscription for 41,667 shares in the amount of \$100,000. The funds were received by the Company in October 2017.

### Options

During the twelve months ended September 30, 2017, the Company entered into three separate consulting agreements, and as part of those agreements for professional services, agreed to issue a total of 400,000 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, 100,000 options vested immediately and pursuant to the third consulting agreement, one third of option to acquire the 100,000 options vests immediately and the remaining two thirds vest monthly for the next 30 months which equals 2,222 a month. In the third consulting agreement, the Company agreed to issue options for a total of 100,000 shares of stock of the Company, with immediately vesting of all underlying shares, for consulting and professional services.

In total, the Company recorded stock based compensation expense to the consultants of approximately \$562,000 as a result of these options in the twelve months ended September 30, 2017.

During the period ended September 30, 2017, the Company entered into two separate employment agreements, both dated June 1, 2017, with the Company's CEO and CFO, respectively. As part of those agreements, the Company agreed to issue a total of 150,000 options to purchase the common stock of the Company, with an exercise price of \$2.40 per share and a term of 3 years. Pursuant to these agreements, 150,000 shares vested immediately. In total, the Company recorded stock based compensation expense to the officers of \$276,000 as a result of these options for the twelve months ended September 30, 2017.

During the year ended September 30, 2017, the Company entered into agreements to engage two additional board members. As part of their engagement packages, the Company offered to the two options to acquire 100,000 shares of common stock of the Company, with an exercise price of \$2.40 per share and term of 1 year. The options vest 12,500 per quarter over four quarters from the date of issuance. In total the Company recorded stock based compensation expense of approximately \$37,000.

The table below includes the significant ranges of the assumptions used to value the options under the Black Scholes Merton valuation model:

Fair value of underlying common	\$	2.40
Exercise price	\$	2.40

Historical volatility*	98.8% to 204%
	1.16% to
Risk free interest rate	1.93%
Dividend rate	0%

\* the Company has used the historic volatility of the average of a basket of 10 companies engaged in providing ancillary type services to the cannabis industry as an approximation of its expected volatility.

A summary of the change in stock purchase options outstanding for the period ended September 30, 2017 is as follows:

	Options Outstanding	Exercise Price	Weighted Average Grant Date Fair Value	Remaining Contractual Life (Years)
Balance – September 30, 2016	-	-	-	-
Options issued	650,000	\$ 2.40	\$ 1.88	2.76
Options expired	-	-	-	-
Options exercised	-	-	-	-
Balance – September 30, 2017	<u>650,000</u>	<u>\$ 2.40</u>	<u>\$ 1.88</u>	<u>2.76</u>

The following table shows information on our vested and unvested options outstanding during the year ended September 30, 2017:

	Options Outstanding	Exercise Price	Average Grant Date Fair Value	Contractual Life (Years)
Balance – September 30, 2016, unvested	-	-	-	-
Options issued	650,000	\$ 2.40	\$ 1.88	2.76
Options vested	423,889	\$ 2.40	\$ 1.93	2.97
Options expired	-	-	-	-
Options exercised	-	-	-	-
Balance – September 30, 2017, unvested	<u>226,111</u>	<u>\$ 2.40</u>	<u>\$ 1.78</u>	<u>2.36</u>

All options outstanding had no intrinsic value as of September 30, 2017

## 10. 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 September 30, 2017, these advances were repaid.

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 to engage in cannabis related operations and who became lessors of the Company's properties in 2017. In the year ended September 30, 2017, these advances were impaired and are shown on the statement of operations and comprehensive loss under the line item "impairment of advances – related party".

In the year ended September 30, 2017, the Company continued to advance funds to the cannabis operating start ups. As of September 30, 2017, the Company advanced a further \$276,673 which has been impaired under the line item “impairment of advances – related party” in the statement of operations and comprehensive loss.

## 11. Commitments and contingencies

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. No amounts have been recorded for deferred rent in these financial statements as the amount was deemed immaterial by the Company. The Company has subleased this space pursuant to a 10 year lease. The following table shows our minimum lease payment requirements under the lease as of September 30, 2017:

2018	\$ 85,958
2019	87,695
2020	89,490
2021	91,345
2022	93,205
Thereafter	<u>400,660</u>
Total	<u>\$848,353</u>

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, additional real estate assets held by entities related to those shareholders. The Agreement also gives the Company the right of first refusal in regards to certain properties owned by the persons and entities affiliated with the parties of the Agreement so long as certain targets are met.

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, if the Company obtains in excess of \$13 million through a combination of private placements and its merger with Patch Holdings, Inc., the cannabis affiliates become obligated to purchase preferred stock of the Company in an amount equivalent to 50% of their post-tax net operating income.

Certain shareholders of the Company have begun organizing entities that will operate directly in the cannabis industry, and the Company leases its properties to these entities. 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 Company’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.

On April 15, 2017, the Company entered into a “Contract for Sale” for a Farm Property in Mulino OR (the “Mulino Property”), pursuant to which the seller will sell the premises to the Company upon the completion of the Company’s due diligence 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 which will be reduced by a rental credit of approximately \$135,000, which is equivalent to nine months’ rent at \$15,000 a month. In addition, the Seller has granted the Company a credit to be reflected upon closing in the amount \$9,500 for improvements made by the Company to the property. The Company expects that the closing of the property purchase will take place in January 2018. In connection with the purchase of the property, the Company will make a cash payment in the amount of \$362,254 and will issue a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. In April 2017, in order for the Company to make use of the premises pending closing of the purchase of the property, the Company agreed to lease the premises from the seller for a term commencing April 5, 2017 and expiring on the earlier of: (i) the termination of the Contract for Sale by either party thereto in accordance with its terms; and (ii) October 5, 2017. The lease requires the Company to pay a base rental fee of \$15,000 for the first nine months with no lease deposit required. All taxes accruing during the lease term (including real estate taxes and personal property taxes) are the responsibility of the Company. In October 2017, both parties agreed to extend the lease through January 2018.

## **Property Rental Agreements**

### 1027 Willamette

In July 2017, the Company entered into an operating lease agreement with a marijuana dispensary (the “Lessee”) to move into the Company’s acquired property located at 1027 Willamette Street in Eugene, Oregon. The lease agreement is for a base term of ten years (see note below) and a monthly rent obligation of \$13,800, subject to annual increases of 3% per year, plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the Tenant and insurance costs paid by the Company. The Company provided the tenant with one month free rent.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for one five-year term, on the same terms as provided in the lease agreement.

### Springfield Suites

In July 2017, the Company entered into a lease agreement for its property and warehouse building located at 800 N 42<sup>nd</sup> street in Springfield, Oregon. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$64,640, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the Tenant and insurance costs paid by the Company. Rent payments commence on the date the growing season ends, which the Company currently estimates will occur in April 2018, and thus expects payments to begin in May 2018. The Company has treated this period as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

### 14336 S. Union Hall Road Mulino

In July 2017, the Company entered into a lease agreement for its property located at 14336 South Union Hall Road in Mulino, Oregon. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$18,750, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes shall be paid by the Tenant and insurance costs paid by the Company. Rent payments will begin at the of the first growing season, which the Company currently estimates will occur in April 2018, and thus payments will commence in May 2018. The Company expects to treat such period as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five year term, on the same terms as provided in the lease agreement.

### 7827 SE Powell

In July 2017, the Company entered into a lease agreement for its acquired property located at 7827 SE Powell Blvd. in Portland, Oregon. The lease agreement is for a term of ten years and a monthly rent obligation of \$6,523, subject to annual increases of 3% per year. Maintenance and real property taxes shall be paid by the Tenant and insurance paid by the Company. Additional rents will be added to pay landlord back for tenant improvements by the end of the first term of the lease, payments will include annual interest at 12% compounded monthly. Rent payments commence on the date the growing season ends, which the Company currently estimates will occur in April 2018,

and thus expects payments to begin in May 2018. The Company has treated this period as a free rental period for accounting purposes.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

During the twelve months ended September 30, 2017, the Company incurred total rent expense of \$171,932. As of September 30, 2017, the Company has recorded a long-term asset for the straight lining of rent under the rental leases to the cannabis operators of approximately \$298,000.

The following table shows our minimum rental income under non-cancellable leases with a maturity of 1 year or greater as of September 30, 2017:

2018	\$ 615,993
2019	1,265,620
2020	1,301,560
2021	1,340,830
2022	1,381,061
Thereafter	8,371,121
Total	<u>\$ 14,276,185</u>

## 11. Subsequent events

Subsequent to September 30, 2017, and up to the date of this filing, 1,062,167 shares of our common stock, as part of our continuing private placement at \$2.40 per share, were issued for consideration of \$2,549,200 in cash.

The Company issued a \$100,000 promissory note dated December 7, 2017 to accredited investor which matures March 6, 2018 and has an annual rate of interest at 24%. Both principal and interest is due at maturity.

The Company issued a \$100,000 promissory note dated December 1, 2017 to accredited investor which matures March 1, 2018 and has an annual rate of interest at 24%. Both principal and interest is due at maturity.

In November 2017, the Company entered into a consulting 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 business affairs relating to business consolidations and financing. As consideration for these services, the Company has agreed to issue to the consultant options to acquire up to 100,000 shares of common stock of the Company



## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None

### **ITEM 9A. CONTROLS AND PROCEDURES.**

#### **(a) *Disclosure Controls and Procedures***

We are required to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer (also our principal executive officer) and our chief financial officer (also our principal financial and accounting officer) to allow for timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 ("Exchange Act"), the Company's management, including the Company's Chief Executive Officer ("CEO") (the Company's principal executive officer) and Chief Financial Officer ("CFO") (the Company's principal financial and accounting officer), has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2017 to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The principal basis for this conclusion is the lack of segregation of duties within our financial function and the lack of an operating Audit Committee.

#### **(b) *Management's Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may

deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

We carried out an assessment, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our internal controls over financial reporting, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)*. Based on that assessment and on those criteria, our CEO and CFO concluded that our internal control over financial reporting was not effective as of September 30, 2017. The principal basis for this conclusion is (i) failure to engage sufficient resources in regards to our accounting and reporting obligations during our startup and (ii) failure to fully document our internal control policies and procedures.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only the management's report in this annual report.

**(c) *Changes in Internal Controls***

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) during the fiscal period to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's management, including the Company's CEO and CFO, does not expect that the Company's internal control over financial reporting will prevent all errors and all fraud. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

**ITEM 9B. OTHER INFORMATION.**

None.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

##### Our Directors and Executive Officers

Set forth below is certain biographical information concerning our current executive officers and directors.

Our executive officers and directors, and their ages, positions and offices with us are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Adam Berk	40	Chief Executive Officer, President and Director
Steve Hubbard	70	Chief Financial Officer, Secretary and Director
Garrett M. Bender	57	Director
Lindy Snider	57	Director

***Adam Berk*** Mr. Berk has been a director, President and Chief Executive Officer of the Company since its inception in June 2016. From January 2013 until January 2015 Adam was the CEO of HYD For Men, an artisanal men's grooming company that patented the first solution to extend the life of a razor blade by 400%. HYD For Men is currently sold at HSN, Walgreens, Bed Bath & Beyond, Drugstore. com, Birchbox, GiantEagle, Meijers, and Kinney Drugs. Recently, HYD For Men was acquired by Lucas Investment Group. From January 2015 until January 2017 Adam was the Co-President of Consolidated Ventures of Oregon a Cannabis holding company. Mr. Berk's experience as a founder and principal executive of several start-up companies and skills associated therewith led to the conclusion that he should serve as an executive and director of the Company. From 2002 through 2013, Mr. Berk was employed with Osmio, Inc. (currently GrubHub, an Aramark subsidiary), the first patented web-based corporate expense management system that concentrated on food ordering for law firms, investment banks and consulting firms. He served as chief executive of Osmio from 2002-2007.

***Steve Hubbard*** Steve Hubbard has served as Chief Financial Officer, Secretary and a member of the Board of Directors of the Company since its inception in June 2016. He served as Chief Financial Officer and Secretary of Diego Pellicer, Inc., a cannabis-related real estate company From April 2013 through September 2013 and Chief Financial Officer and Secretary of Diego Pellicer Worldwide, Inc. (a publicly reporting company) from September 2013 through December 2014. He served as Chief Financial Officer of Kind Care LLC DBA TJ's Organic Gardens from December 2014 through August 2015 and has been Chief Financial Officer of Consolidated Ventures of Oregon, Inc. since August 2015. Commencing several years prior to April 2013, Mr. Hubbard served as an outside management consultant to several early stage companies, primarily providing financial services. Mr. Hubbard's experience as a founder and principal executive of several start-up companies, his experience as an auditor with Arthur Andersen & Co prior to 2012 and the skills associated therewith led to the conclusion that he should serve as a director of the Company.

***Garrett M. Bender*** Mr. Bender has served as a member of the Board of Directors of the Company since its inception in June 2016. He is the Principal and Co-Founder of Ascot Development LLC, a real estate development firm, which commenced operations in 2003. He has guided Ascot through numerous acquisition and sale transactions and strategically manages Ascot's land portfolio. Mr. Bender's experience as a founder and principal executive of several start-up companies and the sales and marketing skills associated therewith led to the conclusion that he should serve as a director of the Company.

***Lindy Snider***

Ms. Snider has served as a member of the Board of Directors of the Company since its inception in June 2016. She is the founder and for over five years has been CEO of Lindi Skin, the first full line of skin care products for cancer patients. This botanically based skin care line serves the special needs of individuals undergoing cancer treatment and is found in most major cancer centers in the U.S.

Ms. Snider is an active investor in cannabis related businesses. Focused on new business development, brand marketing and investing, Ms. Snider identifies and helps develop innovative companies in the space. She is a passionate entrepreneur and a champion of both start-ups and women-owned businesses. She serves on the following boards and advisories: Sqor.com, Greenhouse Ventures, Intiva, Blazenow, Kind Financial, Elevated Nation, as well as the following philanthropic boards: Fox Chase Cancer Foundation, Cancer Forward, Philadelphia Orchestra, PSPCA, Schuylkill Center for Environmental Education, National Museum of American Jewish History, The Middle East Forum, Shoah Foundation's Next Generation Council, The Ed Snider Youth Hockey Foundation, and The Snider Foundation. Ms. Snider's experience as a founder and principal executive of several start-up companies and her service as an independent director of several for-profit and charitable organizations and the skills associated therewith led to the conclusion that she should serve as a director of the Company.

All of our directors hold office until the next annual meeting of stockholders and until their respective successors have been elected or qualified. Officers serve at the discretion of the board of directors. There are no family relationships among our directors or executive officers. There is no arrangement or understanding between or among our officers and directors pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management stockholders will exercise their voting rights to continue to elect the current board of directors.

None of our directors and executive officers have during the past five years:

- had any bankruptcy petition filed by or against any business of which he was a general partner or executive officer, either at the time of the bankruptcy or within two years prior to that time;
- been convicted in a criminal proceeding and is not subject to a pending criminal proceeding;
- been subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, futures, commodities or banking activities;
- or been found by a court of competent jurisdiction (in a civil action), the Securities Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

### Committees of the Board of Directors

Our Company has three committees of its Board of Directors—(a) Nominating and Governance Committee (b) a Management Compensation Committee and (c) an Audit Committee. The Board of Directors has approved charters for each committee. The Audit Committee is currently composed of: Lindy Snider, Steve Hubbard and Garrett M. Bender. Ms. Snider and Mr. Bender are considered independent directors. Ms. Snider, Mr. Hubbard and Mr. Bender are each considered financially literate. The Company is currently in the process of adding additional independent board members who will also be members of the Audit Committee. The relevant education and experience of the members of the Audit Committee is detailed above. The Board has yet to make appointments to the other Board committees, neither of which has met as of the date of this report.

### Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the Board of Directors or compensation committee of any other entity that has one or more of its executive officers serving as a member of our Board of Directors.

### Section 16(a) Beneficial Ownership Reporting Compliance

Pursuant to Section 16(a) of the Exchange Act and the rules thereunder, the Company's executive officers and directors and persons who own more than 10% of a registered class of the Company's equity securities are required to file with the SEC reports of their ownership of, and transactions in, the Company's common stock.

### ITEM 11. EXECUTIVE COMPENSATION.

The following is a summary of the compensation we paid for each of the last two years ended September 30, 2017 and 2016, respectively (i) to the persons who acted as our principal executive officer during our fiscal year ended September 30, 2017 and (ii) to the person who acted as our next most highly compensated executive officer other than our principal executive officer who was serving as an executive officer as of the end of our last fiscal year.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation	Non-Qualified	All other	Total (\$)
							Deferred Compensation Earnings (\$)	Compensation (\$)	
Adam Berk CEO	2017	\$ —	—	240,000	92,000	—	—	—	332,000
	2016	\$ —	—	—	—	—	—	—	—
Steven Hubbard CFO	2017	\$20,000	—	120,000	184,000	—	—	—	324,000
	2016	\$ —	—	—	—	—	—	—	—
Garrett M. Bender Director	2017	\$ —	—	—	56,000	—	—	—	56,000
	2016	\$ —	—	—	—	—	—	—	—

Lindy Snider	2017 \$	—	—	—	56,000	—	—	—	56,000
Director	2016 \$	—	—	—	—	—	—	—	—

## OUTSTANDING EQUITY AWARDS

### Grants of Plan-Based Awards

Name	Grant Date	Option Awards		Option Exercise Price (\$)	Option Expiration Date
		Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) Unearned Options (#)	Number of Securities Underlying Unexercised Options (#) (1)		
Adam Berk, CEO, Director	June 1, 2017	-	50,000	2.40	May 31, 2020
Steven Hubbard, CFO, Director	June 1, 2017	-	100,000	2.40	May 31, 2020
Garrett M. Bender, Director	June 1, 2017	-	50,000	2.40	May 31, 2021
Lindy Snider, Director	June 1, 2017	-	50,000	2.40	May 31, 2021

### Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (1))
Equity compensation plans approved by security holders	-	-	-
Equity compensation plans not approved by security holders	250,000	2.40	711,979
<b>Total</b>	<b>250,000</b>	<b>2.40</b>	<b>711,979</b>

(1) As of September 30, 2017

### Warrants Issued to Management

Name	Grant Date	Number of Securities Underlying Unexercised Warrants	Number of Securities Underlying Unexercised Warrants	Warrant Exercise Price(\$)	Warrant Expiration Date
None					
<b>Total</b>					

### Employment Agreements

Adam Berk—On June 1, 2017, the Company entered into an Employment Agreement for an initial term of one year, subject to automatic renewals for additional one year periods until terminated, with the remaining term at all times being not less than one year. The Employment Agreement provides for a base salary of \$10,000 per month. Mr. Berk also received a restricted stock grant of 100,000 shares of Company common stock and options to purchase 50,000 shares of Company common stock exercisable for a period of three years at an exercise price of \$2.40 per share. At the end of the initial one year term of the Employment Agreement, and assuming that the term is extended, Mr. Berk is entitled to receive an additional restricted stock grant of 100,000 shares of Company common stock and options to purchase 50,000 shares of Company common stock at the then market value, exercisable for a period of three years.

Steven Hubbard— On June 1, 2017, the Company entered into an Employment Agreement for an initial term of one year, subject to automatic renewals for additional one year periods until terminated, with the remaining term at all times being not less than one year. The Employment Agreement provides for a base salary of \$5,000 per month. Mr. Hubbard also received a restricted stock grant of 50,000 shares of Company common stock and options to purchase 100,000 shares of Company common stock exercisable for a period of three years at an exercise price of \$2.40 per share. At the end of the initial one year term of the Employment Agreement, and assuming that the term is extended, Mr. Hubbard is entitled to receive an additional restricted stock grant of 50,000 shares of Company common stock and options to purchase 100,000 shares of Company common stock at the then market value, exercisable for a period of three years.



Geoff Ostrove—On January 1, 2017, the Company entered into an Employment Agreement for a term of one year. The Employment Agreement provides for an initial salary of \$5,250 per month, which increased to \$6,250 per month commencing the fourth month of the term through the end of the term.

### Compensation of Directors

On June 1, 2017, each of the members of the Board of Directors received options to purchase 50,000 shares of Company Common Stock at \$2.40 per share exercisable for a period of three years from the date of issuance. At this time, there is no other board of director compensation plan in place.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth certain information with respect to the beneficial ownership of our voting securities by (i) any person or group owning more than 5% of any class of voting securities, (ii) each director, (iii) our chief executive officer and president and (iv) all executive officers and directors as a group as of January 8, 2017. Unless noted, the address for the following beneficial owners and management is 20283 State Rd 7, Building 400, Suite 220, Boca Raton, FL 33498.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Owner (1)</u>	<u>Percent of Class</u>
Common Stock	Adam Berk (2)	364,866	5.2%
Common Stock	Steven Hubbard (3)	168,333	1.7%
Common Stock	Garrett M. Bender (4)	178,974	2.6%
Common Stock	Lindy Snider (5)	91,666	1.3%
Common Stock	All executive officers and directors as a group	803,839	11.1%
Common Stock	Flying High Financial Corporation (5% holder) (6) 445 W. 40 <sup>th</sup> Street Miami Beach, FL 33140	625,000	9.0%

(1) In determining beneficial ownership of our Common Stock, the number of shares shown includes shares which the beneficial owner may acquire upon exercise of debentures, warrants and options which may be acquired within 60 days. In determining the percent of Common Stock owned by a person or entity on January 8, 2018, (a) the numerator is the number of shares of the class beneficially owned by such person or entity, including shares which the beneficial ownership may acquire within 60 days of exercise of debentures, warrants and options; and (b) the denominator is the sum of (i) the total shares of that class outstanding on January 8, 2018 (6,966,194 shares of Common Stock) and (ii) the total number of shares that the beneficial owner may acquire upon exercise of the debentures, warrants and options. Unless otherwise stated, each beneficial owner has sole power to vote and dispose of its shares.

(2) Includes 314,866 shares and options to purchase 50,000 shares.

(3) Includes 68,333 shares and options to purchase 100,000 shares

(4) Includes 128,974 shares and options to purchase 50,000 shares

(5) Includes 41,666 shares and options to purchase 50,000 shares

(6) The beneficial owner of Flying High Financial Corporation is Mark Groussman, President.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

***Related Party Transactions***

Please refer to Financial Statement, Note 10, which is incorporated in its entirety by this reference

***Director Independence***

As of January 8, 2018, of our four (4) directors, Garrett M. Bender and Lindy Snider are considered “independent” in accordance with Rule 4200(a)(15) of the NASDAQ Marketplace Rules. The remaining two (2) directors are not considered “independent”.

## **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

### **Audit Fees**

The aggregate fees billed by our principal accountant for the audit of our annual financial statements, review of financial statements included in the quarterly reports and other fees that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal years ended September 30, 2017 and September 30, 2016, respectively, were approximately \$65,000 and \$15,000.

### **Tax Fees**

No fees were billed for professional services rendered by our principal accountant for tax compliance, tax advice and tax planning for the fiscal years ended September 30, 2017 and 2016.

### **All Other Fees**

There were no fees billed for other products or services provided by our principal accountant for 2017 or 2016.

## **PART IV**

## **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

The following documents are filed as part of this 10-K:

### **1. FINANCIAL STATEMENTS**

The following documents are filed in Part II, Item 8 of this annual report on Form 10-K:

- Report of L J Soldinger Associates, LLC, Independent Registered Certified Public Accounting Firm
- Consolidated Balance Sheets as of September 30, 2017 and 2016 (audited)
- Consolidated Statements of Operations for the year ended September 30, 2017 and for the period from Inception (June 7, 2016) through September 30, 2016 (audited)
- Statements of Stockholders' Equity for the year ended September 30, 2017 and from Inception (June 7, 2016) to September 30, 2016 (audited)
- Statement of Cash Flows for the year ended September 30, 2017 and for the period from Inception (June 7, 2016) through September 30, 2016 (audited)
- Notes to Financial Statements (audited)

### **2. FINANCIAL STATEMENT SCHEDULES**

All financial statement schedules have been omitted as they are not required, not applicable, or the required information is otherwise included.

### **3. EXHIBITS**

The exhibits listed below are filed as part of or incorporated by reference in this report.

<u>Exhibit No.</u>	<u>Identification of Exhibit</u>
31.1	<a href="#"><u>Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1	<a href="#"><u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Stem Holdings, Inc.  
(Registrant)

By: /s/ Adam Berk  
Adam Berk  
Chief Executive Officer and Director (Principal  
Executive Officer)

Date January 16, 2018

By: /s/ Steven Hubbard  
Steven Hubbard  
Chief Financial Officer and Director  
(Principal Financial and Accounting Officer)

Date January 16, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following person on behalf of the registrant and in the capacity and on the date indicated.

By: /s/ Adam Berk  
Adam Berk  
Chief Executive Officer and Director (Principal  
Executive Officer)

Date January 16, 2018

By: /s/ Steven Hubbard  
David Marc Cantor  
Chief Financial Officer and Director (Principal  
Financial and Accounting Officer)

Date January 16, 2018

By: /s/ Garrett M. Bender  
Garrett M. Bender  
Director

Date January 16, 2018

By: /s/ Lindy Snider  
Lindy Snider  
Director

Date January 16, 2018

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Adam Berk, certify that:

1. I have reviewed this Form 10-K for the period ended September 30, 2017 of Stem Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 16, 2018

*/s/ Adam Berk*

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Adam Berk  
Principal Executive Officer

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**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Steve Hubbard, certify that:

1. I have reviewed this Form 10-K for the period ended September 30, 2017 of Stem Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.



Date: January 16, 2018

*/s/ Steve Hubbard*

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Steve Hubbard  
Principal Financial Officer

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**CERTIFICATIONS PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Stem Holdings, Inc., a Nevada corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The quarterly report on Form 10-K for the period ended September 30, 2017 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 16, 2018

*/s/ Adam Berk*

Adam Berk

Principal Executive Officer

A signed original of this written statement required by Section 906 has been provided to STEM HOLDINGS, INC. and will be retained by STEM HOLDINGS, INC. and furnished to the Securities and Exchange Commission or its staff upon request.

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**CERTIFICATIONS PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Stem Holdings, Inc., a Nevada corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The quarterly report on Form 10-K for the period ended September 30, 2017 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 16, 2018

*/s/ Steve Hubbard*

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Steve Hubbard  
Principal Financial and Accounting Officer

A signed original of this written statement required by Section 906 has been provided to STEM HOLDINGS, INC. and will be retained by STEM HOLDINGS, INC. and furnished to the Securities and Exchange Commission or its staff upon request.

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**B-1**

**SCHEDULE "B"**  
**FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2016**

(as attached)

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders  
Stem Holdings, Inc.:

We have audited the accompanying balance sheet of Stem Holdings, Inc. as of September 30, 2016, and the related statements of operations, stockholders' equity and cash flows for the period from inception on June 7, 2016 through September 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Stem Holdings, Inc. as of September 30, 2016 and the results of its operations and its cash flows for the period from inception on June 7, 2016 through September 30, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ L J Soldinger Associates, LLC  
Deer Park, Illinois  
January 26, 2017

**Stem Holdings, Inc.**  
**Statements of Financial Position**

	<b>September 30,</b>
	<b>2016</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 798,198
Prepaid expenses and deposits	7,000
Subscriptions receivable	1,170,000
<b>Total current assets</b>	<b>1,975,198</b>
Due from related parties	20,412
Project costs	41,250
Deposits	14,000
<b>Total Assets</b>	<b>\$ 2,050,860</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
Accounts payable and accrued expenses	19,059
Due to related parties	34,750
<b>Total Current Liabilities</b>	<b>53,809</b>
<b>Shareholders' Equity</b>	
Preferred stock, Series A; \$0.001 par value; 50,000,000 shares authorized, none outstanding as of September 30, 2016	-
Preferred stock, Series B; \$0.001 par value; 50,000,000 shares authorized, none outstanding as of September 30, 2016	-
Common stock; \$0.001 par value; 100,000,000 shares authorized, 4,734,163 shares issued and outstanding as of September 30, 2016	4,734
Additional paid-in capital	2,480,016
Subscription receivable	(400,000)
Accumulated deficit	(87,699)
Total equity	1,997,051
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 2,050,860</b>

The accompanying notes are an integral part of these financial statements

**Stem Holdings, Inc.**  
**Statement of Operations**

	<b>Period from June 7, 2016 (Inception) to September 30, 2016</b>
<b>Revenues</b>	<u>\$ -</u>
General and administration	87,699
<b>Operating loss</b>	<u><b>(87,699)</b></u>
Net loss before income taxes	(87,699)
Provision for income taxes	-
<b>Net loss for the period</b>	<u><b>\$ (87,699)</b></u>
<b>Basic and diluted loss per common share</b>	<u><b>\$ (0.03)</b></u>
<b>Basic and diluted weighted average common shares outstanding</b>	<u><b>2,684,936</b></u>

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

**Stem Holdings, Inc.**  
**Statement of Changes in Equity**

	<b>Number of Common Shares Outstanding</b>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Subscription Receivable</b>	<b>Accumulated Deficit</b>	<b>Total Shareholders' Equity</b>
<b>Balance, June 7, 2016 (Inception)</b>	-	\$ -	\$ -	\$ -	\$ -	\$ -
Founders issuance	2,750,000	2,750	-	-	-	2,750
Issuance of common shares in private placements	1,817,497	1,817	2,087,683	-	-	2,089,500
Issuance of common shares for subscription receivable	166,666	167	399,833	(400,000)	-	-
Costs paid in private placements	-	-	(7,500)	-	-	(7,500)
Net loss for the period	-	-	-	-	(87,699)	(87,699)
<b>Balance, September 30, 2016</b>	<b>4,734,163</b>	<b>4,734</b>	<b>2,480,016</b>	<b>(400,000)</b>	<b>(87,699)</b>	<b>1,997,051</b>

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



**Stem Holdings, Inc.**  
**Statements of cash flows**

	<b>Period from June 7, 2016 (inception) to September 30, 2016</b>
<b>Cash Flows from Operating Activities:</b>	
Net loss for the period	\$ (87,699)
Adjustments to reconcile net loss to cash used in operations	
(Increase) decrease in operating assets:	
Prepaid expenses and deposits	(7,000)
Deposits and other assets	(14,000)
Accounts payable and accrued expenses	19,059
<b>Net Cash Flows Used In Operating Activities</b>	<b>(89,640)</b>
<b>Cash Flows from Investing Activities:</b>	
Project cost expenditures	(6,500)
Advances to related entities	(20,412)
<b>Net Cash Flows used in Investing Activities</b>	<b>(26,912)</b>
<b>Financing Activities:</b>	
Proceeds from issuance of common shares	922,250
Private placement costs paid	(7,500)
<b>Net Cash Flows Provided By Financing Activities</b>	<b>914,750</b>
<b>Net increase in cash and cash equivalents</b>	<b>798,198</b>
Cash and cash equivalents at beginning of period	-
<b>Cash and cash equivalents at end of period</b>	<b>\$ 798,198</b>
<b>Supplemental cash flow information</b>	
Cash paid for interest	\$ -
Cash paid for taxes	\$ -
<b>Non-Cash Supplemental information</b>	
Subscriptions receivable	\$ 1,170,000
Project costs paid by shareholders on behalf of the Company	\$ 34,450

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

**Stem Holdings, Inc.**  
**Notes to the Financial Statements**

**1. Incorporation and operations**

Stem Holdings, Inc. (the “Company”) is a Nevada corporation incorporated on June 7, 2016. The Company intends to purchase, improve, and lease 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 commercial location and acquired its first commercial location, respectively. The Company hopes to enter into leases for these properties in the near future.

**2. Summary of significant accounting policies**

**Basis of preparation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

**Use of estimates**

The preparation of these 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.

**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.

**Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash. As of September 30, 2016, the Company had deposits in a major financial institution that are held in a brokerage account and thus not covered by FDIC insurance.

**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.

**Income Taxes**

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of currently due plus deferred taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting carrying amounts and the respective tax bases of assets and liabilities, and are measured using tax rates and laws that are expected to be in effect when the differences are expected to be recovered or settled. Valuation allowances are provided against deferred tax assets if it is more likely than not that the deferred tax assets will not be realized.

The Company follows the guidance of FASB ASC 740-10 which relates to the Accounting for Uncertainty in Income Taxes, which seeks to reduce the diversity in practice associated with the accounting and reporting for uncertainty in income tax positions. This interpretation prescribes a

comprehensive model for financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns.

### **Fair value of financial instruments**

As defined in the authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

To estimate fair value, the Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable.

The authoritative guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities ("Level 1" measurements) and the lowest priority to unobservable inputs ("Level 3" measurements). The three levels of the fair value hierarchy are as follows:

Level 1 -- Observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.

Level 2 -- Other inputs that are observable, directly or indirectly, such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 -- Unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

In instances in which multiple levels of inputs are used to measure fair value, hierarchy classification is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

### **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 common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated based on the weighted-average number of outstanding common shares plus the effect of dilutive potential common shares, using the treasury stock method. The Company's calculation of diluted net loss per share excludes potential common shares as of September 30, 2016 as the effect would be anti-dilutive (i.e. would reduce the loss per share). As of September 30, 2016, the Company had not issued any securities exercisable or convertible into the common stock of the Company.

### **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.

#### **Recent accounting pronouncements**

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments: A Consensus of the FASB Emerging Issues Task Force*. The amendments provide guidance on eight specific cash flow classification issues: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, corporate and bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for private business entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is in the process of assessing the impact that the adoption of this ASU will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU provides guidance for recognizing credit losses on financial instruments based on an estimate of current expected credit losses model. For private business entities that are SEC filers, the amendments in this update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of assessing the impact that the adoption of this ASU will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This ASU simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For private business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is in the process of assessing the impact that the adoption of this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position and also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. This update is effective for fiscal years beginning after December 15, 2019, including interim reporting periods within those fiscal years. Early adoption is permitted. We have preliminarily evaluated the impact of our pending adoption of ASU 2016-02 on our financial statements, and we currently expect that our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of ASU 2016-02, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This standard is effective for fiscal years and interim reporting periods beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The amendments in this update deferred the effective date for implementation of ASU 2014-09 by one year and is now effective for annual reporting periods beginning after December 15, 2018. As we continue to evaluate the impacts of our pending adoption of Topic 606 in the first half of fiscal 2017, our preliminary assessments are subject to change.

From March through December 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, ASU No. 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting*, ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* and ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. These amendments are intended to improve and clarify the implementation guidance of Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements of ASU No. 2014-09 and ASU No. 2015-14.

Management has evaluated other recently issued accounting pronouncements and does not believe that any of these pronouncements will have a significant impact on our consolidated financial statements and related disclosures.

### **3. Subscriptions receivable**

As of September 30, 2016, the Company had \$1,170,000 due from shareholders for the issuance of 487,500 shares of the Company's common stock in accordance with private placement shares subscribed for but proceeds not yet received by the Company as of September 30, 2016. Those proceeds were received by the Company in October 2016.

### **4. Shareholders' Equity**

#### **Preferred shares**

The Company has no preferred shares issued and outstanding as of September 30, 2016.

#### **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.

At inception of the Company, 3 shareholders received 2,750,000 shares of the Company's common stock.

The Company received subscriptions in a private placement offering for the following shares as of September 30, 2016:

- During July – August 12, 2016, 1,010,000 common shares at \$0.15 per share to unaffiliated investors for \$151,500. All of these funds were received as of September 30, 2016.

- During August 25 – September 30, 2016, 974,163 common shares at \$2.40 per share to unaffiliated investors for \$2,338,000. As of September 30, 2016, \$768,000 was received in cash.

### Subscription 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 February 15, 2017. As of the date of these financial statements, that subscription was not yet received by the Company.

## 5. Income taxes

The income tax expense (benefit) consisted of the following for the period from June 7, 2016 (inception) through September 30, 2016:

Total current	\$	-
Total deferred		-
	\$	<u>-</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The following is a reconciliation of the expected statutory federal income tax provision to the actual income tax benefit for the period from June 7, 2016 (inception) through September 30, 2016:

Federal statutory rate	\$	(30,000)
State taxes, net of federal benefit		-
Change in valuation allowance		30,000
	\$	<u>-</u>

Significant components of the Company's deferred tax assets were as follows for the period from June 7, 2016 (inception) through September 30, 2016:

Deferred tax assets:		
Net operating loss carryforwards	\$	<u>30,000</u>
Total deferred tax assets		30,000
Deferred tax liabilities:		
Deferred tax liabilities		-
Total deferred tax liabilities		<u>-</u>
Net deferred tax assets		30,000
Less valuation allowance		(30,000)
Net deferred tax assets (liabilities)	\$	<u>-</u>

At September 30, 2016, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$87,000. The federal and state net operating loss carryforwards will expire beginning in 2036.

During the period from June 7, 2016 (inception) through September 30, 2016, the Company recognized

no amounts related to tax interest or penalties related to uncertain tax positions. The Company is subject to taxation in the United States and various state jurisdictions. The Company currently has no years under examination by any jurisdiction.

**6. 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 8, which sale agreement was later transferred to the Company (see Note 7) 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. In December 2016, \$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 (see Note 7), 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.

**7. Commitments and contingencies**

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.

The future minimum lease payments are as follows:

**For the year ending September 30,**

2017	\$	80,828
2018		89,738
2019		91,475
2020		93,270
Thereafter		608,205
	\$	<u>963,516</u>

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 8). 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 8), 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.

## **8. Subsequent events**

From October through December 31, 2016, the Company raised gross proceeds of \$230,000 from subscriptions entered into by entities after September 30, 2016 from the \$2.40 per share PPM and agreed to issue 95,833 shares of the Company's common stock.

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 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.

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 \$910,000.

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 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 1,048,782 of its shares to acquire 100% of the issued and outstanding shares of Patch. 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 will be required to purchase those shares after negotiations on price have occurred. .



In November 2016, the Company entered into a business consulting agreement with an unrelated third party with a term of 12 months. As part of that agreement, the third party agreed to provide general business consulting services to the Company in exchange for a \$50,000 upfront payment, monthly payments of \$5,000 and an option for 200,000 shares of the Company's common stock, exercisable at \$2.40 per share, a term of 4 years and also piggyback registration rights. The options vest as follows: 100,000 shares immediately upon signing, 50,000 shares upon the Company's common stock being listed on a public exchange for trading, and the remaining 50,000 shares 12 months after the common stock of the Company is listed for trading on a public exchange. In Addition, the consultant agreed to purchase a subscription of 50,000 shares of the Company's common stock at the August PPM rate of \$0.15 per share in the amount of \$7,500, which the Company received in December 2016.

The Company expects to close on the purchase of a commercial property in Portland, Oregon before the end of January 2017. The purchase price is \$650,000 plus closing costs of approximately \$26,000, payable with \$350,000 in cash at closing and a note payable for the remaining \$300,000. The note payable has a four month maturity, requires four monthly payments of \$75,000 and is non-interest bearing.

**C-1**

**SCHEDULE "C"**  
**FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MARCH 31, 2018**

(as attached)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549**

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended **March 31, 2018**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from to

**STEM HOLDINGS, INC.**

(Exact name of small business issuer as specified in its charter)

Nevada      000-55751      61-1794883  
(State      (Commission      (IRS Employer  
of Incorporation) File Number) Identification No.)

7777 Glades Road, Suite 203,  
Boca Raton, FL 33434  
(Address of principal executive offices) (Zip code)

Issuer's telephone number: (561) 948-5410

Securities registered under Section 12(g) of the Exchange Act:  
Common Stock par value \$0.0001

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer       Accelerated Filer   
Non-accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 8,147,028 shares outstanding of registrant's common stock, par value \$0.001 per share, as of May 14, 2018.

Transitional Small Business Disclosure Format (check one): Yes  No

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## PART I

### ITEM 1. FINANCIAL STATEMENTS

**Stem Holdings, Inc.**  
**Condensed Consolidated Statements of Financial Position**

	<b>March 31, 2018 (Unaudited)</b>	<b>September 30, 2017 *</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 2,418,637	\$ 391,389
Prepaid expenses	426,445	106,466
Subscriptions receivable	-	100,000
<b>Total current assets</b>	<b>2,845,082</b>	<b>597,855</b>
<b>Property and equipment, net</b>	<b>6,771,729</b>	<b>3,258,850</b>
<b>Other assets</b>		
Project costs	10,000	10,000
Deposits	204,401	185,318
Deferred rent	863,031	298,441
Total other assets	1,077,432	493,759
<b>Total Assets</b>	<b>\$ 10,694,243</b>	<b>\$ 4,350,464</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable and accrued expenses	\$ 218,912	\$ 101,377
Due to related parties	16,500	16,500
Notes payable and current portion of long-term debt, net of discount	518,249	47,902
<b>Total Current Liabilities</b>	<b>753,661</b>	<b>165,779</b>

<b>Long-term debt</b>	1,636,547	-
<b>Total liabilities</b>	2,390,208	165,779
<b>Shareholders' Equity</b>		
Preferred stock, Series A; \$0.001 par value; 50,000,000 shares authorized, none outstanding as of March 31, 2018	-	-
Preferred stock, Series B; \$0.001 par value; 50,000,000 shares authorized, none outstanding as of March 31, 2018	-	-
Common stock; \$0.001 par value; 100,000,000 shares authorized; 8,448,236 , and 6,354,860 shares issued, issuable and outstanding as of March 31, 2018 and September 30, 2017 respectively	8,538	6,433
Additional paid-in capital	12,725,929	7,012,603
Accumulated deficit	(4,430,432)	(2,834,351)
Total equity	8,304,035	4,184,685
<b>Total Liabilities and Shareholders' Equity</b>	\$ 10,694,243	\$ 4,350,464

The accompanying notes are an integral part of these financial statements

\* Derived from audited information

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**Stem Holdings, Inc.**  
**Condensed Consolidated Statement of Operations**  
(Unaudited)

	Three months ended March 31, 2018	Three months ended March 31, 2017	Six months Ended March 31, 2018	Six months ended March 31, 2017
<b>Revenues</b>	\$ 309,960	\$ -	\$ 619,789	\$ -
Consulting fee's	40,600	49,500	96,050	49,500
Professional fee's	256,645	128,886	397,243	170,356
General and administration	445,870	180,736	878,238	211,984
General and administration--related party	-	93,143	-	93,143
Stock based compensation	338,454	(112,264)	698,000	361,986
<b>Total expenses</b>	1,081,569	340,001	2,069,531	886,969
<b>Operating loss</b>	\$ (771,609)	\$ (340,001)	\$ (1,449,742)	\$ (886,969)
<b>Other income and (expenses)</b>				
Interest expense	(136,678)	-	(146,414)	-
Interest income	49	5,020	75	5,055
Total other income	(136,629)	5,020	(146,339)	5,055
Net loss before income taxes	(908,238)	(334,981)	(1,596,081)	(881,914)
Provision for income taxes	-	-	-	-
<b>Net loss for the period</b>	\$ (908,238)	\$ (334,981)	\$ (1,596,081)	\$ (881,914)
<b>Basic and diluted loss per common share</b>	\$ (0.11)	\$ (0.06)	\$ (0.22)	\$ (0.18)
<b>Basic and diluted weighted average common shares outstanding</b>	7,961,410	5,270,509	7,271,240	4,901,169

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

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**Stem Holdings, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)

	For the Six Months ended March 31,	
	2018	2017
<b>Cash Flows from Operating Activities:</b>		
Net loss for the period	\$ (1,596,081)	\$ (881,914)
<b>Adjustments to reconcile net loss to cash used in operations</b>		
Stock-based compensation	698,000	361,986
Non-cash interest	92,499	-

Depreciation and amortization	193,338	40,381
<b>(Increase) decrease in operating assets:</b>		
Prepaid expenses and other assets	84,943	(54,453)
Deferred revenue	(564,589)	-
<b>Increase (decrease) in operating liabilities:</b>		
Accounts payable and accrued expenses	117,537	16,378
Net Cash Flows Used In Operating Activities	(974,353)	(517,622)
<b>Cash Flows from Investing Activities:</b>		
Fixed asset purchases	(2,315,018)	(1,665,443)
Intangible property expenditures	(4,450)	(28,219)
Project cost expenditures	-	(88,088)
Advances to related entities	-	(208,001)
Deposits for leasehold improvements	(109,083)	(128,476)
Net Cash Flows used in Investing Activities	(2,428,551)	(2,118,227)
<b>Financing Activities:</b>		
Proceeds from issuance of common shares	4,844,930	3,880,103
Proceeds from notes payable	750,000	-
Principle payments on notes payable	(164,778)	-
Net Cash Flows Provided By Financing Activities	5,430,152	3,880,103
<b>Net increase in cash and cash equivalents</b>	<b>2,027,248</b>	<b>1,244,254</b>
Cash and cash equivalents at beginning of period	391,389	798,198
Cash and cash equivalents at end of period	\$ 2,418,637	\$ 2,042,452
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 27,353	\$ -
Cash paid for taxes	\$ -	\$ -
<b>Non-Cash Supplemental information</b>		
Equipment purchased financed	\$ 21,749	\$ -
Purchase of real estate with seller financing	\$ 1,200,000	\$ 304,263
Financed Insurance	\$ 224,922	\$ 213,083
Project costs and construction deposits transferred to PP&E	\$ 90,000	\$ 41,250

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

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**Stem Holdings, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. Incorporation, Operations and Liquidity**

Stem Holdings, Inc. (the “Company”) is a Nevada corporation incorporated on June 7, 2016. The Company intends to purchase, improve, and lease 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 intends to enter into 4 leases for these properties (see Note 7).

As shown in the accompanying consolidated financial statements, the Company has experienced recurring losses, and has accumulated a deficit of approximately \$4,430,432 as of March 31, 2018. For the six months ended March 31, 2018 we had a net loss of \$1,596,081. The Company has entered into four leases with tenants in which it has committed the Company to improve those properties which will require additional funding in the amount of \$750,000. In addition, the Company continues to work towards acquiring additional properties to lease to cannabis operators to grow its business. To date, the Company has raised substantial funds through private placements. After March 31, 2018, the Company has continued to raise funds through private placements, debentures and other transactions. The Company also expects that its cash outflow from operation will decrease in fiscal year 2018 as three of its four subleases to cannabis operators begin generating cash flow in the fourth quarter of the fiscal year and its current cash balance plus expected private placement and other investment proceeds allow it to continue operating and build out its properties.

**2. Summary of significant accounting policies**

**Basis of preparation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The condensed financial statements included herein are unaudited. Such financial statements, in the opinion of management, contain all adjustments necessary to present fairly the financial position and results of operations as of and for the periods indicated. All such adjustments are of a normal recurring nature. These interim results are not necessarily indicative of the results to be expected for the year ending

September 30, 2018 or for any other period. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, and because of this, for further information, readers should refer to the financial statements and footnotes included in its Form 10 for the fiscal year ended September 30, 2017 filed on January 16, 2018. The Company believes that the disclosures are adequate to make the interim information presented not misleading.

#### Principals of Consolidation

The accompanying consolidated financial statements include the accounts of Stem Holdings, Inc. and its wholly-owned subsidiary, Patch International, Inc. All material intercompany accounts, transactions, and profits have been eliminated in consolidation.

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#### Revenue Recognition

The Company recognizes rental revenue from tenants, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured. The Company makes estimates of the collectability of its tenant receivables related to base rents, straight-line rent and other revenues. In the current fiscal year, the Company began significant rental operations. The Company considers such things as historical bad debts, tenant creditworthiness, current economic trends, facility operating performance, lease structure, developments relevant to a tenant's business, and changes in tenants' payment patterns in its analysis of accounts receivable and its evaluation of the adequacy of the allowance for doubtful accounts. Specifically, for straight-line rent receivables, the Company's assessment includes an estimation of a tenant's ability to fulfill its rental obligations over the remaining lease term.

#### Real Estate Acquisition Valuation

All assets acquired and liabilities assumed in an acquisition of real estate are measured at their acquisition date fair values. The acquisition value of land, building and improvements are included in real estate investments on the accompanying consolidated balance sheets. Acquisition pursuit costs associated with asset acquisitions are capitalized. The Company has early adopted ASU 2017-01, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as businesses acquisitions. As a result of early adopting ASU 2017-01, real estate acquisitions did not meet the definition of a business combination and were deemed asset acquisitions, and the Company therefore capitalized its acquisition pursuit costs associated with these acquisitions.

#### Reclassifications

Certain amounts in the Company's consolidated financial statements for prior periods have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods.

#### Use of estimates

The preparation of these 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. The significant estimates included in these financial statements are those associated with the assumptions used to value options issued to consultants and the estimated rent payment deferral period at inception of its cannabis operation subleases. Actual results may differ from these estimates.

#### Warrants to Purchase Common Stock and Other Derivative Financial Instruments

We classify as equity any contracts that require physical settlement or net-share settlement or provide us a choice of net-cash settlement or settlement in our own shares (physical settlement or net-share settlement) provided that such contracts are indexed to our own stock. We classify as assets or liabilities any contracts that require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside our control) or give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). We assess the classification of warrants issued to purchase our common stock and any other financial instrument at each reporting date to determine whether a change in classification between assets and liabilities is required.

#### 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.

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#### Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash. As of March 31, 2018, the Company had deposits in a major financial institution in excess of the FDIC insurance limit. The Company believes the risk of loss to be minimal as it maintains its cash balances at well capitalized financial institutions.

## Carrying value, recoverability and impairment of long-lived assets

The Company follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 360 to evaluate its long-lived assets. The Company’s long-lived assets, which include property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company does not test for impairment in the year of acquisition of properties so long as those properties are acquired from unrelated third parties.

The Company assesses the recoverability of its long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of long-lived assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Fair value is generally determined using the asset’s expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated and amortized over the newly determined remaining estimated useful lives.

The Company considers the following to be some examples of important indicators that may trigger an impairment review: (i) significant under-performance or losses of assets relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of assets or in the Company’s overall strategy with respect to the manner or use of the acquired assets or changes in the Company’s overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company’s stock price for a sustained period of time; and (vi) regulatory changes. The Company evaluates assets for potential impairment indicators at least annually and more frequently upon the occurrence of such events.

Through March 31, 2018 the Company has not experienced impairment losses on its long-lived assets.

## 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 in order to exercise their option. All amounts shown capitalized prior to acquisition of a property are included under the caption of Project Costs in the balance sheet.

## Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of currently due plus deferred taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting carrying amounts and the respective tax bases of assets and liabilities and are measured using tax rates and laws that are expected to be in effect when the differences are expected to be recovered or settled. Valuation allowances are provided against deferred tax assets if it is more likely than not that the deferred tax assets will not be realized.

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The Company follows the guidance of FASB ASC 740-10 which relates to the Accounting for Uncertainty in Income Taxes, which seeks to reduce the diversity in practice associated with the accounting and reporting for uncertainty in income tax positions. This interpretation prescribes a comprehensive model for financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns.

## Fair value of financial instruments

As defined in the authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To estimate fair value, the Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The authoritative guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (“Level 1” measurements) and the lowest priority to unobservable inputs (“Level 3” measurements). The three levels of the fair value hierarchy are as follows:

Level 1 — Observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.

Level 2 — Other inputs that are observable, directly or indirectly, such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 — Unobservable inputs for which there is little or no market data and which the Company makes its own assumptions about how market participants would price the assets and liabilities.

In instances in which multiple levels of inputs are used to measure fair value, hierarchy classification is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

## 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 common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated based on the weighted-average number of outstanding common shares plus the effect of dilutive potential common shares, using the treasury stock method. The Company’s calculation of diluted net loss per share excludes potential common shares as of March 31, as the effect would be anti-dilutive (i.e. would reduce the loss per share).

As of March 31, 2018, the Company had issued 916,666 options and warrants exercisable into the common stock of the Company outstanding (see Note 6).

#### Advertising Costs

The Company follows the policy of charging the cost of advertising to expense as incurred. Advertising expense was \$18,880 for the six months ended March 31, 2018 and \$17,939 for 2017.

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#### 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.

#### Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and is depreciated using the straight-line method over the assets’ estimated useful life as follows:

Buildings	20 years
Leasehold improvements	Shorter of term of lease or economic life of improvement
Furniture and equipment	5 years
Signage	5 years
Software and related	5 years

Normal maintenance and repairs for equipment are charged to expense as incurred, while significant improvements are capitalized.

#### Related parties

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal with if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

### 3. Property, Plant & Equipment

At March 31, 2018 property and equipment consisted of the following:

Automobile	\$ 18,275
Signage	19,118
Furniture and equipment	436,586
Leasehold improvements	1,575,161
Buildings and property improvements	4,688,506
Land	300,000
Software and related	56,640
Subtotal	7,094,286
Accumulated depreciation and amortization	(322,557)
Property, plant and equipment, net	\$6,771,729

(1) Because the Company closed on the acquisition of the Mulino property (see Note 9) in January 2018, the Company has treated the costs to improve the property as building improvements and not as project costs as of March 31, 2018.

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 and requires four monthly payments of \$75,000 plus a final payment for the remaining amount due immediately thereafter plus fees. 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. The Company and note holder are negotiating an agreement to reduce the obligation by \$75,000 which is the balance due under the note, due to the Seller breaching certain sections of the Purchase and Sale Agreement dated November 15, 2016. As of March 31, 2018, the balance owed on the note was approximately \$79,000.

[Insert re: Mulino Farm Acquisition]

Depreciation and amortization expense was \$193,339 for the six months ended March 31, 2018 and \$40,381 for 2017.

#### **4. 2016 Stock Plan**

In 2016, the Company adopted a plan to allow the Company to compensate prospective and current employees, directors and consultants through the issuance of equity instruments of the Company. The plan has an effective life of 10 years. The plan is administered by the board of directors of the Company until such time as the board transfers responsibility to a committee of the board. The plan is limited to issuing common shares of the Company up to 15% of the total shares then outstanding. No limitations exist on any other instruments issuable under the plan. In the event of a change in control of the Company, all unvested instruments issued under the plan become immediately vested.

#### **5. Notes Payable**

In November 2017, the Company entered into a promissory note in the amount of \$21,749 from a vendor of the Company. The promissory note bears an interest rate of 18% per annum and also contains a 10% servicing fee. The note matures 24 months after issuance and is secured by certain security electronics purchased with proceeds of the note.

The Company issued a \$100,000 promissory note dated December 7, 2017 to accredited investor which matures March 7, 2018 and has an annual rate of interest at 24%. Both principal and interest is due at maturity. The promissory note ranks senior to all obligations not designated as a primary obligation by the Company. As an inducement to issue the promissory note, the Company granted the holder warrants to acquire 20,833 shares of the Company's common stock. The warrant has an exercise price of \$2.40 per underlying common share and are exercisable for 2 years from the anniversary date of issuance (see Note 6). This obligation fully repaid on March 28, 2018.

The Company issued a \$100,000 promissory note dated December 1, 2017 to accredited investor which matures March 1, 2018 and has an annual rate of interest at 24%. Both principal and interest is due at maturity. The promissory note ranks senior to all obligations not designated as a primary obligation by the Company. As an inducement to issue the promissory note, the Company granted the holder warrants to acquire 20,833 shares of the Company's common stock. The warrant has an exercise price of \$2.40 per underlying common share and are exercisable for 2 years from the anniversary date of issuance (see Note 6). On March 1, 2018, pursuant to the First Amendment to Loan Agreement and Promissory note, the parties agreed to extend the note for one more year which includes the following terms; (1) interest payment of \$6,000 due from the original note is to be paid (2) interest rate decreases from an annual rate of 24% to 8% (3) the Company has the right to prepay the note combined with accrued interest at any time prior to maturity (4) the lender has the right to call the note together with accrued interest not less than 30 days written notice to the Company (5) at any time prior to maturity of the note, lender has the option to convert the indebtedness with accrued interest into the Company's common stock at the rate of \$2.40 a share. At issuance, the Company determined that there was no beneficial conversion feature.

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As of February 2018, the Company entered into a 10-month premium finance agreement in partial consideration for an insurance policy in the principal amount of \$216,086. The note bears an annual interest rate of 5.75% and requires the Company to make ten monthly payments of \$22,105 over the term of the note. As of March 31, 2018, the obligation outstanding is \$198,943.

Effective March 2, 2018, the Company entered into a 10-month premium finance agreement in partial consideration for an insurance policy in the principal amount of \$8,836. The note bears an annual interest rate of 5.75% and requires the Company to make ten monthly payments of \$904 over the term of the note. As of March 31, 2018, the obligation outstanding is \$8,135.

On January 16, 2018 the Company consummated a "Contract for Sale" for a Farm Property in Mulino OR (the "Mulino Property"). The purchase price was \$1,700,000 which was reduced by a rental credit of approximately \$135,000 which is equivalent to nine months' rent at \$15,000 a month and a additional credit of \$9,500 for additional work done on the property. In connection with the purchase of the property, the Company made a cash payment as down payment plus payment of closing costs in the amount of \$370,637 and issued a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. The note is secured by a deed of trust on the property.

#### **Mortgage payable**

On February 28, 2018, the Company executed a \$550,000 mortgage payable on the Willamette property to acquire additional funds. The mortgage bears interest at 15% per annum. Monthly interest only payments began March 1, 2018 and continue each month thereafter until paid. The entire unpaid balance is due on March 1, 2020, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participations by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged

real estate project. For the six months ended March 31, 2018, interest expense related to this mortgage amounted to \$6,875. The note has been cross guaranteed by the CEO and Director of the Company.

## 6. Shareholders' Equity

### Preferred shares

The Company had no preferred shares issued and outstanding as of March 31, 2018.

### Common shares

The holders of common shares are not entitled to receive dividends at this time, however, are entitled to one vote per share at meetings of the Company.

The Company received subscriptions in private placement offerings completed for the following shares for the six ended March 31, 2018:

- For the six months ended March 31, 2018, 2,015,596 common shares were issued at \$2.40 per share to unaffiliated investors raising gross cash proceeds (including collection of \$100,000 subscription receivable) of \$4,837,430. 141,667 shares of common stock were issuable as of March 31, 2018.
- During the six months ended March 31, 2018, the Company began the process of registering shares of common stock for trading under the securities laws of Canada. As part of that process, certain founders were notified that they had to contribute additional amounts for their shares. In the six months ended March 31, 2018, two founders contributed an additional \$9,933 towards their founders shares as part of the requirements of the securities regulators of Canada.

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### Subscription receivable

On September 27, 2017, the Company received a subscription for 41,667 shares in the amount of \$100,000. The funds were received by the Company in October 2017.

### Options

During the six months ended March 31, 2018, the Company entered into a renewed consulting agreement, and as part of that agreement for professional services, agreed to issue a total of 100,000 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 agreement 50,000 shares vested immediately, options to acquire 25,000 shares will vest 6 months subsequent to the effective date, and the remaining option to acquire 25,000 shares vests 1 year after the effective date.

During the six months ended March 31, 2018, the Company granted options to acquire 50,000 shares of its common stock to a consultant. The grant has an exercise price of \$2.40 per share and a term of 4 years. All of the option shares vested on the date of the grant.

During the six months ended March 31, 2018, the Company entered into an employment agreement dated February 15, 2018, and as part of this agreement agreed to issue a total of 50,000 options to purchase the common stock of the Company, with an exercise price of \$2.40 per share and a term of 3 years. Pursuant to the agreement, all 50,000 options vests immediately. In total, the Company recorded stock-based compensation expense to directors and officers of \$97,500 as a result of these options in the six months ended March 31, 2018. In addition, upon the execution of the agreement, the employee received 10,416 shares of the Company's stock valued at \$2.40 totaling \$25,000. As a result of the issuance, the expense of \$25,000 is accrued in Officers and Directors stock compensation.

During the period ended March 31, 2018, the Company entered into an employment agreement dated January 1, 2018, and as part of this agreement agreed to issue a total of 25,000 options to purchase the common stock of the Company, with an exercise price of \$2.40 per share and a term of 3 years. Pursuant to these agreements, 10,000 options vests immediately, 5,000 options vest on the first anniversary and the balance of 10,000 options will vest on the second anniversary date. In total, the Company recorded stock-based compensation expense to the directors and officers of \$19,500 as a result of these options in the six months ended March 31, 2018.

The fair values of the options granted during the quarter ended December 31, 2017 were determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

Risk-free interest rate	5.00%
Expected term:	4 years
Expected dividend yield:	0.00%
Expected volatility:	126.6%

The options issued in the six months ended March 31, 2018 noted above were valued at inception at the fair value of \$2.22 per share.

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## Warrants

The fair values of the warrants granted during the term of the agreement in connection with promissory notes issued (see Note 5) were determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

Risk-free interest rate:	5.00%
Expected term:	4 years
Expected dividend yield:	0.00%
Expected volatility:	126.6%

The valuation of the warrants was \$92,499 which has been recorded as a debt discount and is being amortized over the life of the loans on a straight-line basis to interest expense. As of March 31, 2018, \$0 remained unamortized.

## 7. Commitments and contingencies

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. No amounts have been recorded for deferred rent in these financial statements as the amount was deemed immaterial by the Company. The Company has subleased this space pursuant to a 10-year lease. On February 22, 2018, both parties executed a lease addendum that adds contiguous property for 12,322 square feet. The term commences November 1, 2017 and continues through November 31, 2026 at a rate of \$3,525 a month that escalates 3% per year.

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, additional real estate assets held by entities related to those shareholders. The Agreement also gives the Company the right of first refusal in regard to certain properties owned by the persons and entities affiliated with the parties of the Agreement so long as certain targets are met.

Should the Company obtain in excess of \$10,000,000 through a combination of its private placements and its merger with Patch Holdings, Inc., it is required to purchase certain real estate properties owned by entities affiliated with certain of its shareholders. In addition, if the Company obtains in excess of \$13 million through a combination of private placements and its merger with Patch Holdings, Inc., the cannabis affiliates become obligated to purchase preferred stock of the Company in an amount equivalent to 50% of their post-tax net operating income.

Certain shareholders of the Company have begun organizing entities that will operate directly in the cannabis industry, and the Company leases its properties to these entities. 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.

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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. Parties have verbally agreed. In November 2017, the Company entered into a consulting 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 business affairs relating to business consolidations and financing. As consideration for these services, the Company has agreed to issue to the consultant options to acquire up to 100,000 shares of common stock of the Company.

In March 2018, the Company entered into a 3-year lease for the occupancy of the Company’s corporate office located in Boca Raton, Florida. The lease requires the Company to pay a base rental fee of \$3,024 per month. All taxes, maintenance and utilities are billed separately. In addition, the Company also remitted \$6,048 or a security deposit to the landlord. The landlord provided the Company with 2 free months.

January 16, 2018 the Company consummated a “Contract for Sale” for a Farm Property in Mulino OR (the “Mulino Property”). The purchase price is \$1,700,000 which is reduced by a rental credit of approximately \$135,000 which is equivalent to nine months’ rent at \$15,000 a month and a additional credit of \$9,500 for additional work done on the property. In connection with the purchase of the property, the Company made a cash payment in the amount of \$370,637 and issued a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full.

## Property Rental Agreements

### *1027 Willamette*

In July 2017, the Company entered into an operating lease agreement with a marijuana dispensary (the “Lessee”) to move into the Company’s acquired property located at 1027 Willamette Street in Eugene, Oregon. The lease agreement is for a base term of ten years (see note below) and a monthly rent obligation of \$13,800, subject to annual increases of 3% per year, plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the Tenant and insurance costs paid by the Company. The Company provided the tenant with one month of free rent. Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for one five-year term, on the same terms as provided in the lease agreement.

### *Springfield Suites*

In July 2017, the Company entered into a lease agreement for its property and warehouse building located at 800 N 42nd street in Springfield, Oregon. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$64,640, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the Tenant and insurance costs paid by the Company. Rent payments commence on the date the growing season ends, which the Company currently estimates will occur in August 2018, and thus expects payments to begin in September 2018. The Company has treated this period as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

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### *14336 S. Union Hall Road, Mulino*

In July 2017, the Company entered into a lease agreement for its property located at 14336 South Union Hall Road in Mulino, Oregon. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$18,750, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes shall be paid by the Tenant and insurance costs paid by the Company. Rent payments will begin at the of the first growing season, which the Company currently estimates will occur in August 2018, and thus payments will commence in September 2018. The Company expects to treat such period as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

### *7827 SE Powell*

In July 2017, the Company entered into a lease agreement for its acquired property located at 7827 SE Powell Blvd. in Portland, Oregon. The lease agreement is for a term of ten years and a monthly rent obligation of \$6,523, subject to annual increases of 3% per year. Maintenance and real property taxes shall be paid by the Tenant and insurance paid by the Company. Additional rents will be added to pay landlord back for tenant improvements by the end of the first term of the lease, payments will include annual interest at 12% compounded monthly. Rent payments commence on the date the growing season ends, which the Company currently estimates will occur in August 2018, and thus expects payments to begin in September 2018. The Company has treated this period as a free rental period for accounting purposes. Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

During the six months ended March 31, 2018, the Company incurred total rent expense of \$98,423. As of March 31, 2018, the Company has recorded a long-term asset for the straight lining of rent under the rental leases to the cannabis operators of approximately \$863,030.

## **8. Subsequent events**

Subsequent to March 31, 2018, and up to the date of this filing, we have raised \$340,000 as part of our continuing private placement at \$2.40 per share. As of the date of this filing, we have issued 0 shares on account of these sales and are committed to issue an additional 141,667 shares.

On April 30, 2018, the Company entered into a one-year engagement agreement with a new Director. Pursuant to the engagement agreement, the Company will compensate the Director with 50,000 options to purchase the Company’s common stock at \$2.40 vesting at 12,500 options a quarter expiring in 4 years. The engagement letter may be terminated upon thirty days written notice by either party.

On April 4, 2018, the Company executed a \$316,000 mortgage payable to acquire additional funds. The mortgage bears interest at 15% per annum. Monthly interest only payments began May 1, 2018 and continue each month thereafter until paid. The entire unpaid balance is due on April 1, 2020, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participations by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project.

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## Forward Looking Statements

This Interim Report on Form 10-Q contains, in addition to historical information, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (“PLSRA”), Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) regarding Stem Holdings, Inc. (the “Company” or “Stem”, also referred to as “us”, “we” or “our”). Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements involve risks and uncertainties. Forward-looking statements include statements regarding, among other things, (a) our projected sales, profitability, and cash flows, (b) our growth strategies, (c) anticipated trends in our industries, (d) our future financing plans and (e) our anticipated needs for working capital. They are generally identifiable by use of the words “may,” “will,” “should,” “anticipate,” “estimate,” “plans,” “potential,” “projects,” “continuing,” “ongoing,” “expects,” “management believes,” “we believe,” “we intend” or the negative of these words or other variations on these words or comparable terminology. These statements may be found under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Description of Business,” as well as in this Form 10-Q generally. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results.

Any or all of our forward-looking statements in this report may turn out to be inaccurate. They can be affected by inaccurate assumptions we might make or by known or unknown risks or uncertainties. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially as a result of various factors, including, without limitation, the risks outlined under “Risk Factors” detailed in the Company’s Form 10 registration statement and matters described in this Form 10-Q generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. You should not place undue reliance on these forward-looking statements. The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to publicly update any forward-looking statements, whether as the result of new information, future events, or otherwise. We intend that all forward-looking statements be subject to the safe harbor provisions of the PSLRA.

For the year ended September 30, 2017, the financial statements have been prepared by management in accordance with the standards of the Public Company Accounting Oversight Board (United States). For the three and six months ended March 31, 2018, the unaudited interim financial statements have been prepared by management in accordance with the condensing rules of the United States Securities and Exchange Commission.

## 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 year ended September 30, 2017, the Company was an early stage company which was only engaged in initial capital formation, initial property purchases, leasing activities and general and administrative activities related to the formation and early operation of the company. Given that the Company was only formed on June 7, 2016, the comparative results for the prior year are not relevant.

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## Summary of Results

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenues	\$ 309,960	\$ 0.00
Net (loss)	\$ (908,238)	\$ (334,981)
Basic and diluted earnings (loss) per share \$	(0.11)	(0.06)

	Six Months Ended March 31, 2018	Six Months Ended March 31, 2017
Revenues	\$ 619,789	\$ 0.00
Net (loss)	\$ (1,596,081)	\$ (881,914)
Basic and diluted earnings (loss) per share \$	(0.22)	(0.18)

## Comparison of the results of operations for the three months ended March 31, 2018 compared to the three months ended March 31, 2017

Because we were in the early stages of development in 2017, our operations were concentrated in startup and raising funds to commence operations and we had not yet received any revenues, there is not a meaningful comparison between the periods.

The Company had revenues during the three months ended March 31, 2018 of \$309,960 compared with \$0.00 for the comparable period of 2017, which primarily comprised straight lining the rent we expect from our four leases. Under US GAAP, our rental income from the properties is earned on a straight-line basis over the entire expected life of the rent agreement, including the free rent period we have provided until each lessor ends its cannabis growing season. As of March 31, 2018, only the Willamette Property lessor had begun cash payments under the lease. We expect the remaining three lessors to commence cash payments under their three leases in May 2018.

In the three months ended March 31, 2018, we incurred consulting costs of \$40,600 compared to \$49,500 in the comparable period of the prior year. We expended those fees as we have yet to build up a significant employee base and currently outsource certain tasks to consultants. We expect in the

upcoming year to increase our consulting fees as we continue to grow, even though we do expect to increase staffing, as we do not expect that growth will be commensurate with our growth from operations in the near term.

In the three months ended March 31, 2018, we incurred professional fees of approximately \$256,645 compared to \$128,886 in the comparable period of the prior year. Those fees are primarily for legal, accounting and related services relating to our being a public company in both the United States and Canada. We expect as we grow our operations these costs will continue to grow.

In the three months ended March 31, 2018, we incurred general and administrative costs of approximately \$445,870 compared to \$273,879, which included \$93,143 of costs related to the startup of operations of the OPCO entities to which we sublease the properties, in the comparable period of the prior year. Those costs include payroll, depreciation and amortization, insurance, rent expense and other general costs. We expect that these costs will increase as we increase our operations.

In the three months ended March 31, 2018, we incurred stock-based compensation of approximately \$338,454 compared to \$(112,264) in the comparable period of the prior year, primarily the result of grants of stock and options to officers, directors and consultants as of March 31, 2017, since we updated certain of our estimates for equity-based issuances, which resulted in the negative expense recorded in the period. We expect that we will continue to use equity in the form of our common stock and options or warrants to compensate our employees and to reduce the cash compensation we will need to outlay to consultants in the upcoming year as we continue to grow our operations and devote our cash resources to acquiring new and improving our existing properties.

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### **Comparison of the results of operations for the six months ended March 31, 2018 compared to the six months ended March 31, 2017**

Because we were in the early stages of development in 2017, our operations were concentrated in startup and raising funds to commence operations and we had not yet received any revenues, there is not a meaningful comparison between the periods.

The Company had revenues during the six months ended March 31, 2018 of \$619,789 compared with \$0 for the comparable period of 2017, which primarily comprised straight lining the rent we expect from our four leases. Under US GAAP, our rental income from the properties is earned on a straight-line basis over the entire expected life of the rent agreement, including the free rent period we have provided until each lessor ends its cannabis growing season. As of March 31, 2018, only the Willamette Property lessor had begun cash payments under the lease. We expect the remaining three lessors to commence cash payments under their three leases in May 2018.

In the six months ended March 31, 2018, we incurred consulting costs of \$96,050 compared to \$49,500 in the comparable period of the prior year. We expended those fees as we have yet to build up a significant employee base and currently outsource certain tasks to consultants. We expect in the upcoming year to increase our consulting fees as we continue to grow, even though we do expect to increase staffing, as we do not expect that growth will be commensurate with our growth from operations in the near term.

In the six months ended March 31, 2018, we incurred professional fees of approximately \$397,243 compared to \$170,356 in the comparable period of the prior year. Those fees are primarily for legal, accounting and related services relating to our being a public company in both the United States and Canada. We expect as we grow our operations these costs will continue to grow.

In six months ended March 31, 2018, we incurred general and administrative costs of approximately \$878,238 compared to \$305,127, which included \$93,143 of costs related to the startup of operations of the OPCO entities to which we sublease the properties, in the comparable period of the prior year. Those costs include payroll, depreciation and amortization, insurance, rent expense and other general costs. We expect that these costs will increase as we increase our operations.

In the six months ended March 31, 2018, we incurred stock-based compensation of approximately \$698,000 compared to \$361,986 in the comparable period of the prior year, primarily the result of grants of stock and options to officers, directors and consultants. We expect that we will continue to use equity in the form of our common stock and options or warrants to compensate our employees and to reduce the cash compensation we will need to outlay to consultants in the upcoming year as we continue to grow our operations and devote our cash resources to acquiring new and improving our existing properties.

### **Properties**

In September 2016, the Company entered into a 10-year lease with respect to certain property located in Springfield, OR (the "42nd Street Property") 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 has subleased this space effective July 1, 2017. The 42nd Street Property is a 16,000-sq. ft. indoor cannabis growing facility.

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On November 1, 2016, the Company acquired certain property located in Eugene, OR (the "Willamette Property") for a total cash purchase price plus closing costs of approximately \$918,000. The Willamette Property is an operating cannabis dispensary.

On February 6, 2017, the Company acquired certain real property located at 7827 SE Powell Blvd, Portland, OR 97206 (the "Powell 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 Powell Property is a cannabis dispensary.

The note is non-interest bearing requires four monthly payments of \$75,000 plus a final payment for the remaining amount due immediately thereafter plus fees. 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. The Company and note holder have come to an agreement subsequent to September 30, 2017 to reduce by \$75,000 the balance due under the note, due to the Seller breaching certain sections of the Purchase and Sale Agreement dated November 15, 2016. As of March 31, 2018, the balance owed on the note was approximately \$79,000.

On April 15, 2017, the Company entered into a "Contract for Sale" for a Farm Property in Mulino OR (the "Mulino Property"), pursuant to which the seller will sell the premises to the Company upon the completion of the Company's due diligence 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 which will be reduced by a rental credit of approximately \$135,000, which is equivalent to nine months' rent at \$15,000 a month. In addition, the Seller has granted the Company a credit to be reflected upon closing in the amount \$9,500 for improvements to the property made by the Company. The Company expects that the closing of the property purchase will take place in January 2018. In connection with the purchase of the property, the Company will make a cash payment in the amount of \$362,254 and will issue a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. In April 2017, in order for the Company to make use of the premises pending closing of the purchase of the property, the Company agreed to lease the premises from the seller for a term commencing April 5, 2017 and expiring on the earlier of: (i) the termination of the Contract for Sale by either party thereto in accordance with its terms; and (ii) October 5, 2017. The lease requires the Company to pay a base rental fee of \$15,000 for the first nine months with no lease deposit required. All taxes accruing during the lease term (including real estate taxes and personal property taxes) are the responsibility of the Company. In October 2017, both parties agreed to extend the lease through January 2018. The Company closed on the purchase of the property in January 2018.

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. Each of these properties will be leased on a double net basis to qualified tenants. The Company will not be involved in the operation of these properties or in the growing or sale of cannabis.

The leases noted above all contain provisions in which the 10-year timetable for rent payments the individual renters incur under the leases do not begin until such time as the first cannabis growing season for the renters is completed. For the Willamette Property, that period ended at the end of July 2017, and rent payments commenced in August 2017. For the other three properties, the Company currently estimates that the growing season will end at the end of April 2018 and rent payments will commence in May 2018.

## LIQUIDITY AND FINANCIAL CONDITION

### Liquidity and Capital Resources

The Company had cash of \$2,418,637 as of March 31, 2018. Our primary uses of cash have been for salaries, fees paid to third parties for professional services, property operating expenses, general and administrative expenses, and the acquisition and development of rental properties. All funds received have been expended in the furtherance of growing the business. We have received funds from financing activities such as from the sale of our common stock.

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The following trends are reasonably likely to result in changes in our liquidity over the near to long term:

- An increase in working capital requirements to finance our current business,
- Acquisition and buildout of rental properties;
- Addition of administrative and sales personnel as the business grows and
- The cost of being a public company.

Our efforts to raise additional capital are ongoing.

We currently have committed that we would need to spend approximately \$2.7 million on capital expenditures for the expansion and buildout of our Powell and Springfield properties, and in addition, approximately \$1.25 million to complete the purchase of the Mulino Property. These capital expenditures are contingent upon several factors including the Company obtaining financing for the development of the properties and the construction of the tenant improvements in such amount and on such terms and provisions as are acceptable to the Company.

We have used our available funds to fund our operating expenses, pay our obligations, acquire and develop rental properties, and grow our company. We need to raise significant additional capital or debt financing to acquire new properties, to develop existing properties, and to assure we have sufficient working capital for our ongoing operations and debt obligations. There is no guarantee that such funding will be available to the Company at a viable cost, if at all.

## CRITICAL ACCOUNTING POLICIES

### Revenue Recognition

The Company recognizes rental revenue from tenants, including rental abatements, lease incentives and contractual fixed increases attributable to



operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured.

The Company makes estimates of the collectability of its tenant receivables related to base rents, straight-line rent and other revenues. In the current fiscal year, the Company began significant rental operations. The Company expects its analysis of any accounts receivable and evaluates the adequacy of the allowance for doubtful accounts, it considers such things as historical bad debts, tenant creditworthiness, current economic trends, facility operating performance, lease structure, developments relevant to a tenant's business, and changes in tenants' payment patterns. Specifically, for straight-line rent receivables, the Company's assessment includes an estimation of a tenant's ability to fulfill its rental obligations over the remaining lease term.

#### 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.

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#### 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.

#### CONTRACTUAL OBLIGATIONS AND 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. No amounts have been recorded for deferred rent in these financial statements as the amount was deemed immaterial by the Company. The Company has subleased this space pursuant to a 10-year lease. On February 22, 2018, both parties executed a lease addendum that adds contiguous property for 12,322 square feet. The term commences November 1, 2017 and continues through November 31, 2026 at a rate of \$3,525 a month that escalates 3% per year.

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, additional real estate assets held by entities related to those shareholders. The Agreement also gives the Company the right of first refusal in regard to certain properties owned by the persons and entities affiliated with the parties of the Agreement so long as certain targets are met.

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, if the Company obtains in excess of \$13 million through a combination of private placements and its merger with Patch Holdings, Inc., the cannabis affiliates become obligated to purchase preferred stock of the Company in an amount equivalent to 50% of their post-tax net operating income.

Certain shareholders of the Company have begun organizing entities that will operate directly in the cannabis industry, and the Company leases its properties to these entities. 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.

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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. Parties have verbally agreed. In November 2017, the Company entered into a consulting 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 business affairs relating to business consolidations and financing. As consideration for these services, the Company has agreed to issue to the consultant options to acquire up to 100,000 shares of common stock of the Company.

In March 2018, the Company entered into a 3-year lease for the occupancy of the Company's corporate office located in Boca Raton, Florida. The lease requires the Company to pay a base rental fee of \$3,024 per month. All taxes, maintenance and utilities are billed separately. In addition, the Company also remitted \$6,048 or a security deposit to the landlord. The landlord provided the Company with 2 free months.

January 16, 2018 the Company consummated a "Contract for Sale" for a Farm Property in Mulino OR (the "Mulino Property"). The purchase price is \$1,700,000 which is reduced by a rental credit of approximately \$135,000 which is equivalent to nine months' rent at \$15,000 a month and a additional credit of \$9,500 for additional work done on the property. In connection with the purchase of the property, the Company made a cash payment in the amount of \$370,637 and issued a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full.

#### Property Rental Agreements

##### *1027 Willamette*

In July 2017, the Company entered into an operating lease agreement with a marijuana dispensary (the "Lessee") to move into the Company's acquired property located at 1027 Willamette Street in Eugene, Oregon. The lease agreement is for a base term of ten years (see note below) and a monthly rent obligation of \$13,800, subject to annual increases of 3% per year, plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the Tenant and insurance costs paid by the Company. The Company provided the tenant with one month of free rent. Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for one five-year term, on the same terms as provided in the lease agreement.

##### *Springfield Suites*

In July 2017, the Company entered into a lease agreement for its property and warehouse building located at 800 N 42nd street in Springfield, Oregon. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$64,640, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the Tenant and insurance costs paid by the Company. Rent payments commence on the date the growing season ends, which the Company currently estimates will occur in August 2018, and thus expects payments to begin in September 2018. The Company has treated this period as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

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##### *14336 S. Union Hall Road, Mulino*

In July 2017, the Company entered into a lease agreement for its property located at 14336 South Union Hall Road in Mulino, Oregon. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$18,750, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes shall be paid by the Tenant and insurance costs paid by the Company. Rent payments will begin at the of the first growing season, which the Company currently estimates will occur in August 2018, and thus payments will commence in September 2018. The Company expects to treat such period as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

##### *7827 SE Powell*

In July 2017, the Company entered into a lease agreement for its acquired property located at 7827 SE Powell Blvd. in Portland, Oregon. The lease agreement is for a term of ten years and a monthly rent obligation of \$6,523, subject to annual increases of 3% per year. Maintenance and real property taxes shall be paid by the Tenant and insurance paid by the Company. Additional rents will be added to pay landlord back for tenant improvements by the end of the first term of the lease, payments will include annual interest at 12% compounded monthly. Rent payments commence on the date the growing season ends, which the Company currently estimates will occur in August 2018, and thus expects payments to begin in September 2018. The Company has treated this period as a free rental period for accounting purposes. Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement. During the six months ended March 31,

2018, the Company incurred total rent expense of \$98,423. As of March 31, 2018, the Company has recorded a long-term asset for the straight lining of rent under the rental leases to the cannabis operators of approximately \$863,030.

#### OFF-BALANCE SHEET ARRANGEMENTS

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

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

#### ITEM 4. CONTROLS AND PROCEDURES

##### (a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)) as of the end of the quarterly period covered by this report, have concluded that our disclosure controls and procedures are not effective to reasonably ensure that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's Rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The principal basis for this conclusion is the lack of segregation of duties within our financial function and the lack of an operating Audit Committee.

##### (b) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) during the fiscal period to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

None.

#### ITEM 1A. RISK FACTORS

Smaller reporting companies are not required to provide the information required by this item.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth all securities issued by Stem since between January 1, 2018 and May 11, 2018:

	Date	Number of Shares	Security (issued or issuable)	Price US\$ per share
Investors in \$2.40/share Offering	1/2018-5/14/2018	1,062,459	Common Stock	\$ 2.40
Shares issued to Employees and Consultants	1/1/2018-4/11/2018	120,417	Common Stock	services provided

These shares were sold pursuant to an exemption from registration under Section 4(2) promulgated under the Securities Act of 1933, as amended.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

#### ITEM 5. OTHER INFORMATION

None.

#### ITEM 6. EXHIBITS

Exhibit No.	Description
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- 31.1/31.2 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
- 32.1/32.2 Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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### SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STEM HOLDINGS, INC.

May 15, 2018 By: */s/ Adam Berk*  
Adam Berk, President and Chief Executive Officer

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**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Adam Berk, certify that:

1. I have reviewed this Form 10-Q for the period ended March 31, 2018 of Stem Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2018

*/s/ Adam Berk*

Adam Berk

Principal Executive Officer

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Steve Hubbard, certify that:

1. I have reviewed this Form 10-Q for the period ended March 31, 2018 of Stem Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2018

*/s/ Steve Hubbard*  
Steve Hubbard  
Principal Financial Officer

**CERTIFICATIONS PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Stem Holdings, Inc., a Nevada corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The quarterly report on Form 10-Q for the period ended March 31, 2018 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2018

*/s/ Adam Berk*  
Adam Berk  
Principal Executive Officer

A signed original of this written statement required by Section 906 has been provided to STEM HOLDINGS, INC. and will be retained by STEM HOLDINGS, INC. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATIONS PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Stem Holdings, Inc., a Nevada corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The quarterly report on Form 10-Q for the period ended March 31, 2018 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2018

*/s/ Steve Hubbard*  
Steve Hubbard  
Principal Financial and Accounting Officer

A signed original of this written statement required by Section 906 has been provided to STEM HOLDINGS, INC. and will be retained by STEM HOLDINGS, INC. and furnished to the Securities and Exchange Commission or its staff upon request.



**SCHEDULE "D"**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2017**

(as attached)

compensation for those services. On June 1, 2017, the agreement was amended to provide for an issuance of an aggregate of 50,000 shares of Company common stock, which were valued at \$120,000 (\$2.40 per share). The Company also issued to the consultant options to purchase 100,000 shares of Company common stock for a period of four years at an exercise price of \$2.40 per share.

- On June 1, 2017, the Company entered into a services agreement with a consultant to provide certain financial services and agree to issue 50,000 shares of common stock as part of the compensation for those services, which were valued at \$120,000 (\$2.40 per share).

The securities issued in the above-mentioned transactions were issued in connection with private placements exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended, pursuant to the terms of Section 4(2) of that Act and Rule 506 of Regulation D.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.**

### **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 year ended September 30, 2017, the Company was an early stage company which was only engaged in initial capital formation, initial property purchases, leasing activities and general and administrative activities related to the formation and early operation of the company. Given that the Company was only formed on June 7, 2016, the comparative results for the prior year are not relevant.

## Summary of Results

	Year Ended September 30, 2017	Inception (June 7, 2016) to September 30, 2016
Revenues	\$ 326,041	\$ 0.00
Net (loss)	\$ (2,746,652)	\$ (87,699)
Basic and diluted earnings (loss) per share	\$ (0.49)	\$ (0.03)

### Comparison of the results of operations for the year ended September 30, 2017 compared to the Period from Inception (June 7, 2016) through September 30, 2016

Because the 2016 period was only a short period from inception, which operations were concentrated in startup and raising funds to commence operations, we have chosen not to compare those results against the full year results for 2017 as those comparisons would not be informative. Below is our discussion of the results of operations for the year ended September 30, 2017.

The Company had revenues during the year ended September 30, 2017 of \$326,041, which primarily comprised of straight lining the rent we expect from our four leases. Under US GAAP, our rental income from the properties is earned on a straight-line basis over the entire expected life of the rent agreement, including the free rent period we have provided until each lessor ends its cannabis growing season. As of September 30, 2017, only the Willamette Property lessor had begun cash payments under the lease. We expect the remaining three lessors to commence cash payments under their three leases in May 2018.

In the year ended September 30, 2017 we incurred consulting costs of \$203,000. We expended those fees as we have yet to build up a significant employee base and currently outsource certain tasks to consultants. We expect in the upcoming year to increase our consulting fees as we continue to grow, even though we do expect to increase staffing, as we do not expect that growth will be commensurate with our growth from operations in the near term.

In the year ended September 30, 2017 we incurred professional fees of approximately \$273,000. Those fees are primarily for legal, accounting and related services in regards to our being a public company in both the United States and Canada. We expect as we grow our operations these costs will continue to grow.

In the year ended September 30, 2017, we incurred general and administrative costs of approximately \$829,000. Those costs include payroll, depreciation and amortization, insurance, rent expense and other general costs. We expect that these costs will increase as we increase our operations.

In the year ended September 30, 2017, we impaired advances totaling approximately \$297,000 to the entities we currently lease to. We made these advances to assist these entities in their start up. We impaired these advances due to the start-up nature of the entities. Should we make advances in the future prior to the entities commencing profitable operations, it's possible we may need to impair those advances.

In the year ended September 30, 2017, we incurred stock based compensation of approximately \$1.475 million, primarily the result of grants of stock and options to officers, directors and consultants. We expect that we will continue to use equity in the form of our common stock and options or warrants to compensate our employees and to reduce the cash compensation we will need to outlay to consultants in the upcoming year as we continue to grow our operations and devote our cash resources to acquiring new and improving our existing properties.

### Transaction with Patch International, Inc.

On January 20, 2017, the shareholders of Patch International, Inc. voted to be acquired by the Company. As a result, the merger with Patch International, Inc. closed and the Company now has received an additional approximately

\$2.4 million which was on Patch's books at the time of the acquisition, net of the approximately \$54,000 paid to dissenting Patch International, Inc. shareholders.

### **Properties**

In September 2016, the Company entered into a 10-year lease with respect to certain property located in Springfield, OR (the "42nd Street Property") 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 has subleased this space effective July 1, 2017. The 42<sup>nd</sup> Street Property is a 16,000-sq. ft. indoor cannabis growing facility.

On November 1, 2016, the Company acquired certain property located in Eugene, OR (the "Willamette Property") for a total cash purchase price plus closing costs of approximately \$918,000. The Willamette Property is an operating cannabis dispensary.

On February 6, 2017, the Company acquired certain real property located at 7827 SE Powell Blvd, Portland, OR 97206 (the "Powell 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 Powell Property is a cannabis dispensary.

The note is non-interest bearing requires four monthly payments of \$75,000 plus a final payment for the remaining amount due immediately thereafter plus fees. 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. The Company and note holder have come to an agreement subsequent to September 30, 2017 to reduce by \$75,000 the balance due under the note, due to the Seller breaching certain sections of the Purchase and Sale Agreement dated November 15, 2016. As of September 30, 2017, the balance owed on the note was approximately \$4,000.

On April 15, 2017, the Company entered into a “Contract for Sale” for a Farm Property in Mulino OR (the “Mulino Property”), pursuant to which the seller will sell the premises to the Company upon the completion of the Company’s due diligence 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 which will be reduced by a rental credit of approximately \$135,000, which is equivalent to nine months’ rent at \$15,000 a month. In addition, the Seller has granted the Company a credit to be reflected upon closing in the amount \$9,500 for improvements to the property made by the Company. The Company expects that the closing of the property purchase will take place in January 2018. In connection with the purchase of the property, the Company will make a cash payment in the amount of \$362,254 and will issue a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. In April 2017, in order for the Company to make use of the premises pending closing of the purchase of the property, the Company agreed to lease the premises from the seller for a term commencing April 5, 2017 and expiring on the earlier of: (i) the termination of the Contract for Sale by either party thereto in accordance with its terms; and (ii) October 5, 2017. The lease requires the Company to pay a base rental fee of \$15,000 for the first nine months with no lease deposit required. All taxes accruing during the lease term (including real estate taxes and personal property taxes) are the responsibility of the Company. In October 2017, both parties agreed to extend the lease through January 2018.

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. Each of these properties will be leased on a double net basis to qualified tenants. The Company will not be involved in the operation of these properties or in the growing or sale of cannabis.

The leases noted above all contain provisions in which the 10-year timetable for rent payments the individual renters incur under the leases do not begin until such time as the first cannabis growing season for the renters is completed. For the Willamette Property, that period ended at the end of July 2017, and rent payments commenced in August 2017. For the other three properties, the Company currently estimates that the growing season will end at the end of April 2018 and rent payments will commence in May 2018.

## LIQUIDITY AND FINANCIAL CONDITION

### Liquidity and Capital Resources

The Company had cash of \$391,389 as of September 30, 2017. Our primary uses of cash have been for salaries, fees paid to third parties for professional services, property operating expenses, general and administrative expenses, and the acquisition and development of rental properties. All funds received have been expended in the furtherance of growing the business. We have received funds from financing activities such as from the sale of our common stock. The following trends are reasonably likely to result in changes in our liquidity over the near to long term:

- An increase in working capital requirements to finance our current business,
- Acquisition and buildout of rental properties;
- Addition of administrative and sales personnel as the business grows and
- The cost of being a public company.

Subsequent to September 30, 2017, we have raised an additional approximately \$2.5 million in our private placements and have also raised \$200,000 in short term notes. Our efforts to raise additional capital are ongoing.

We currently have committed that we would need to spend approximately \$2.2 million on capital expenditures for the expansion and buildout of our Powell and Springfield properties, and in addition, approximately \$1.525 million to purchase the Mulino Property. These capital expenditures are contingent upon several factors including the Company obtaining financing for the development of the properties and the construction of the tenant improvements in such amount and on such terms and provisions as are acceptable to the Company.

We have used our available funds to fund our operating expenses, pay our obligations, acquire and develop rental properties, and grow our company. We need to raise significant additional capital or debt financing to acquire new properties, to develop existing properties, and to assure we have sufficient working capital for our ongoing operations and debt obligations. There is no guarantee that such funding will be available to the Company at a viable cost, if at all.

## CRITICAL ACCOUNTING POLICIES

### Revenue Recognition

The Company recognizes rental revenue from tenants, including rental abatements, lease incentives and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured.

The Company makes estimates of the collectability of its tenant receivables related to base rents, straight-line rent and other revenues. In the current fiscal year, the Company began significant rental operations. The Company expects its analysis of any accounts receivable and evaluates the adequacy of the allowance for doubtful accounts, it considers such things as historical bad debts, tenant creditworthiness, current economic trends, facility operating performance, lease structure, developments relevant to a tenant's business, and changes in tenants' payment patterns. Specifically, for straight-line rent receivables, the Company's assessment includes an estimation of a tenant's ability to fulfill its rental obligations over the remaining lease term.

### 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.

## CONTRACTUAL OBLIGATIONS AND 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.

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.

On April 15, 2017, the Company entered into a "Contract for Sale" for a Farm Property in Mulino OR (the "Mulino Property"), pursuant to which the seller will sell the premises to the Company upon the completion of the Company's due diligence 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 which will be reduced by a rental credit of approximately \$135,000, which is equivalent to nine months' rent at \$15,000 a month. In addition, the Seller has granted the Company a credit to be reflected upon closing in the amount \$9,500 for improvements made by the Company to the property. The Company expects that the closing of the property purchase will take place in January 2018. In connection with the purchase of the property, the Company will make a cash payment in the amount of \$362,254 and will issue a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. In April 2017, in order for the Company to make use of the premises pending closing of the purchase of the property, the Company agreed to lease the premises from the seller for a term commencing April 5, 2017 and expiring on the earlier of: (i) the termination of the Contract for Sale by either party thereto in accordance with its terms; and (ii) October 5, 2017. The lease

requires the Company to pay a base rental fee of \$15,000 for the first nine months with no lease deposit required. All taxes accruing during the lease term (including real estate taxes and personal property taxes) are the responsibility of the Company. In October 2017, both parties agreed to extend the lease through January 2018.

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.

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 Company'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.

#### OFF-BALANCE SHEET ARRANGEMENTS

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

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The financial information required by Item 8 begins on the following page.



**SCHEDULE "E"**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD ENDED SEPTEMBER 30, 2016**

(as attached)

## **Stem Holdings, Inc.**

### **Management's Discussion and Analysis**

#### **For the period from June 7, 2016 (date of inception) to September 30, 2016**

This discussion and analysis of financial condition and results of operations for the year ended September 30, 2016 should be read in conjunction with the audited financial statements of Stem Holdings, Inc. ("**Stem**" or the "**Company**") for the periods ended September 30, 2016, together with the notes thereto and the auditor's report thereon. The financial statements have been prepared in accordance with U.S. GAAP and are expressed in U.S. Dollars.

Additional information relating to the Company is available through SEDAR at [www.sedar.com](http://www.sedar.com).

This Management's Discussion and Analysis is dated as of November 4, 2016. 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. It is based in 9370 Grand Estates Way, Boca Raton, FL, USA. The Company was formed to purchase, improve, and lease properties which are operated by third parties and are used for the cultivation and retail sale of marijuana. The address of the registered office is 321 N. Walsh Street, Carson City, NV 89701. During the period from June 7, 2016 (date of inception) to September 30, 2016 and the period from October 1, 2016 to October 12, 2016, the Company was an early stage company which was only engaged in initial capital formation and general and administrative activities related to formation of the company. The Company had no revenues during this period. The financial statements of the Company for the periods ended October 12, 2016 and September 30, 2016 were authorized for issuance in accordance with a resolution of the Board of Directors on November 4, 2016.

### **Financial overview**

The Company had no revenues during the period from June 7, 2016 (date of inception) to September 30, 2016 and incurred an aggregate of general and administrative expense of \$87,699 during the period. During the period, the Company raised an aggregate of \$2,480,016 through three offerings of common stock. 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 period from June 7, 2016 (date of inception) to September 30, 2016 and the period from October 1, 2016 to October 12, 2016. The Company had no revenues during the period from June 7, 2016 (date of inception) to September 30, 2016 and incurred an aggregate of general and administrative expense of \$87,699 during the period. The expense was primarily attributable to professional fees incurred in company formation and in connection with raising capital.

## Summary of Results

	June 7, 2016 to September 30, 2016
Revenues	\$0.00
Net (loss)	(\$87,699)
Basic and diluted earnings (loss) per share	(\$0.03)

## LIQUIDITY AND FINANCIAL CONDITION

### Liquidity and Capital Resources

During the periods from June 7, 2016 (date of inception) to September 30, 2016, the Company had cashflow used in operations of (\$89,640). There is no data for any comparable periods.

The Company had cash of \$798,198 as at September 30, 2016.

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

## EQUITY

As at September 30, 2016, shareholders' equity was \$1,997,051.

There were 4,734,163 Common Shares issued and outstanding at September 30, 2016.

Stem has paid no dividends.

## SIGNIFICANT ACCOUNTING POLICIES

The Company's historical consolidated financial statements and notes to the historical consolidated financial statements contain information that is pertinent to the management's discussion and analysis of financial condition and results of operations. Preparation of financial statements in conformity with U.S. GAAP requires that management makes estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. However, the accounting principles used by the Company generally does not change reported cash flows or liquidity. Interpretation of the existing rules must be done and judgments made on how the specifics of a given rule apply to the Company.

There have been no changes in the Company's critical accounting policies and procedures during the periods ended September 30, 2016 and October 12, 2016, respectively.

## RELATED PARTY TRANSACTIONS

The Company had no related party transactions during the periods from June 7, 2016 (date of inception) to September 30, 2016 and the period from October 1, 2016 to October 12, 2016.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has no contractual obligations or commitments.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## PROPOSED TRANSACTIONS AND SUBSEQUENT EVENTS

### *Proposed Transactions*

On November 14, 2016, Stem entered into an arrangement agreement (the "**Arrangement Agreement**") with Patch International Inc. ("**Patch**"). Pursuant to the Arrangement Agreement, among other things, Stem proposes to acquire all of the issued and outstanding Class "A" common shares in the capital of Patch (the "Patch Common Shares") in exchange for shares in the common stock in the capital of Stem ("**Purchaser Shares**") by way of a court-approved plan of arrangement (the "**Arrangement**") under the *Business Corporations Act* (Alberta). On completion of the Arrangement, holders of Patch Common Shares will own approximately 19% of the issued and outstanding Purchaser Shares.

Pursuant to the Arrangement, Stem will acquire 37,850,724 Patch Common Shares which are currently issued and outstanding, and an additional 6,101,489 Patch Common Shares to be issued upon the redemption of the Series A preferred shares of Patch Energy Inc. through the issuance of Purchaser Shares, valued at a deemed price of US\$2.40 per Purchaser Share. Subject to final determination of the Patch's working capital as at the effective date for the Arrangement (the "**Effective Date**"), holders of Patch Common Shares are expected to receive approximately 0.0246 of a Purchaser Share for each Patch Common Share held, with each such fraction of a Purchaser Share valued at a deemed price of approximately C\$0.079 as at the date hereof. The aggregate number of Purchaser Shares that will be issued in exchange for the Patch Common Shares will be finally determined three business days prior to the Effective Date, all as further described in the Arrangement Agreement.

The completion of the Arrangement requires the approval of the holders of the Patch Common Shares. The Arrangement Agreement provides that Patch must call a shareholder meeting to approve the Arrangement and that the Arrangement must be approved by the holders of Patch Common Shares by no later than January 31, 2017. The completion of the Arrangement is also subject to a number of additional conditions set out in the Arrangement Agreement.

### *Subsequent Events*

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.

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.

## **RISKS**

The Company main risk is the security of its cash. The Company's cash is maintained in a commercial bank in the United States.

## **CAUTION REGARDING ESTIMATES**

The reader is further cautioned that the preparation of financial statements in accordance with U.S. GAAP 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; oil and gas prices and demand; other development trends of the oil and gas industry; 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.

**SCHEDULE "F"**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2018**

(as attached)

### *1027 Willamette*

In July 2017, the Company entered into an operating lease agreement with a marijuana dispensary (the “Lessee”) to move into the Company’s acquired property located at 1027 Willamette Street in Eugene, Oregon. The lease agreement is for a base term of ten years (see note below) and a monthly rent obligation of \$13,800, subject to annual increases of 3% per year, plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the Tenant and insurance costs paid by the Company. The Company provided the tenant with one month of free rent. Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for one five-year term, on the same terms as provided in the lease agreement.

### *Springfield Suites*

In July 2017, the Company entered into a lease agreement for its property and warehouse building located at 800 N 42nd street in Springfield, Oregon. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$64,640, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the Tenant and insurance costs paid by the Company. Rent payments commence on the date the growing season ends, which the Company currently estimates will occur in August 2018, and thus expects payments to begin in September 2018. The Company has treated this period as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

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### *14336 S. Union Hall Road, Mulino*

In July 2017, the Company entered into a lease agreement for its property located at 14336 South Union Hall Road in Mulino, Oregon. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$18,750, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes shall be paid by the Tenant and insurance costs paid by the Company. Rent payments will begin at the of the first growing season, which the Company currently estimates will occur in August 2018, and thus payments will commence in September 2018. The Company expects to treat such period as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

### *7827 SE Powell*

In July 2017, the Company entered into a lease agreement for its acquired property located at 7827 SE Powell Blvd. in Portland, Oregon. The lease agreement is for a term of ten years and a monthly rent obligation of \$6,523, subject to annual increases of 3% per year. Maintenance and real property taxes shall be paid by the Tenant and insurance paid by the Company. Additional rents will be added to pay landlord back for tenant improvements by the end of the first term of the lease, payments will include annual interest at 12% compounded monthly. Rent payments commence on the date the growing season ends, which the Company currently estimates will occur in August 2018, and thus expects payments to begin in September 2018. The Company has treated this period as a free rental period for accounting purposes. Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

During the six months ended March 31, 2018, the Company incurred total rent expense of \$98,423. As of March 31, 2018, the Company has recorded a long-term asset for the straight lining of rent under the rental leases to the cannabis operators of approximately \$863,030.

## **8. Subsequent events**

Subsequent to March 31, 2018, and up to the date of this filing, we have raised \$340,000 as part of our continuing private placement at \$2.40 per share. As of the date of this filing, we have issued 0 shares on account of these sales and are committed to issue an additional 141,667 shares.

On April 30, 2018, the Company entered into a one-year engagement agreement with a new Director. Pursuant to the engagement agreement, the Company will compensate the Director with 50,000 options to purchase the Company’s common stock at \$2.40 vesting at 12,500 options a quarter expiring in 4 years. The engagement letter may be terminated upon thirty days written notice by either party.

On April 4, 2018, the Company executed a \$316,000 mortgage payable to acquire additional funds. The mortgage bears interest at 15% per annum. Monthly interest only payments began May 1, 2018 and continue each month thereafter until paid. The entire unpaid balance is due on April 1, 2020, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participations by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project.

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## Forward Looking Statements

This Interim Report on Form 10-Q contains, in addition to historical information, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (“PLSRA”), Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) regarding Stem Holdings, Inc. (the “Company” or “Stem”, also referred to as “us”, “we” or “our”). Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements involve risks and uncertainties. Forward-looking statements include statements regarding, among other things, (a) our projected sales, profitability, and cash flows, (b) our growth strategies, (c) anticipated trends in our industries, (d) our future financing plans and (e) our anticipated needs for working capital. They are generally identifiable by use of the words “may,” “will,” “should,” “anticipate,” “estimate,” “plans,” “potential,” “projects,” “continuing,” “ongoing,” “expects,” “management believes,” “we believe,” “we intend” or the negative of these words or other variations on these words or comparable terminology. These statements may be found under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Description of Business,” as well as in this Form 10-Q generally. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results.

Any or all of our forward-looking statements in this report may turn out to be inaccurate. They can be affected by inaccurate assumptions we might make or by known or unknown risks or uncertainties. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially as a result of various factors, including, without limitation, the risks outlined under “Risk Factors” detailed in the Company’s Form 10 registration statement and matters described in this Form 10-Q generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. You should not place undue reliance on these forward-looking statements. The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to publicly update any forward-looking statements, whether as the result of new information, future events, or otherwise. We intend that all forward-looking statements be subject to the safe harbor provisions of the PSLRA.

For the year ended September 30, 2017, the financial statements have been prepared by management in accordance with the standards of the Public Company Accounting Oversight Board (United States). For the three and six months ended March 31, 2018, the unaudited interim financial statements have been prepared by management in accordance with the condensing rules of the United States Securities and Exchange Commission.

## 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 year ended September 30, 2017, the Company was an early stage company which was only engaged in initial capital formation, initial property purchases, leasing activities and general and administrative activities related to the formation and early operation of the company. Given that the Company was only formed on June 7, 2016, the comparative results for the prior year are not relevant.

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## Summary of Results

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenues	\$ 309,960	\$ 0.00
Net (loss)	\$ (908,238)	\$ (334,981)
Basic and diluted earnings (loss) per share \$	(0.11)	(0.06)

	Six Months Ended March 31, 2018	Six Months Ended March 31, 2017
Revenues	\$ 619,789	\$ 0.00
Net (loss)	\$ (1,596,081)	\$ (881,914)
Basic and diluted earnings (loss) per share \$	(0.22)	(0.18)

## Comparison of the results of operations for the three months ended March 31, 2018 compared to the three months ended March 31, 2017

Because we were in the early stages of development in 2017, our operations were concentrated in startup and raising funds to commence operations and we had not yet received any revenues, there is not a meaningful comparison between the periods.

The Company had revenues during the three months ended March 31, 2018 of \$309,960 compared with \$0.00 for the comparable period of 2017, which primarily comprised straight lining the rent we expect from our four leases. Under US GAAP, our rental income from the properties is earned on a straight-line basis over the entire expected life of the rent agreement, including the free rent period we have provided until each lessor ends its cannabis growing season. As of March 31, 2018, only the Willamette Property lessor had begun cash payments under the lease. We expect the remaining three lessors to commence cash payments under their three leases in May 2018.

In the three months ended March 31, 2018, we incurred consulting costs of \$40,600 compared to \$49,500 in the comparable period of the prior year. We expended those fees as we have yet to build up a significant employee base and currently outsource certain tasks to consultants. We expect in the



upcoming year to increase our consulting fees as we continue to grow, even though we do expect to increase staffing, as we do not expect that growth will be commensurate with our growth from operations in the near term.

In the three months ended March 31, 2018, we incurred professional fees of approximately \$256,645 compared to \$128,886 in the comparable period of the prior year. Those fees are primarily for legal, accounting and related services relating to our being a public company in both the United States and Canada. We expect as we grow our operations these costs will continue to grow.

In the three months ended March 31, 2018, we incurred general and administrative costs of approximately \$445,870 compared to \$273,879, which included \$93,143 of costs related to the startup of operations of the OPCO entities to which we sublease the properties, in the comparable period of the prior year. Those costs include payroll, depreciation and amortization, insurance, rent expense and other general costs. We expect that these costs will increase as we increase our operations.

In the three months ended March 31, 2018, we incurred stock-based compensation of approximately \$338,454 compared to \$(112,264) in the comparable period of the prior year, primarily the result of grants of stock and options to officers, directors and consultants as of March 31, 2017, since we updated certain of our estimates for equity-based issuances, which resulted in the negative expense recorded in the period. We expect that we will continue to use equity in the form of our common stock and options or warrants to compensate our employees and to reduce the cash compensation we will need to outlay to consultants in the upcoming year as we continue to grow our operations and devote our cash resources to acquiring new and improving our existing properties.

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### **Comparison of the results of operations for the six months ended March 31, 2018 compared to the six months ended March 31, 2017**

Because we were in the early stages of development in 2017, our operations were concentrated in startup and raising funds to commence operations and we had not yet received any revenues, there is not a meaningful comparison between the periods.

The Company had revenues during the six months ended March 31, 2018 of \$619,789 compared with \$0 for the comparable period of 2017, which primarily comprised straight lining the rent we expect from our four leases. Under US GAAP, our rental income from the properties is earned on a straight-line basis over the entire expected life of the rent agreement, including the free rent period we have provided until each lessor ends its cannabis growing season. As of March 31, 2018, only the Willamette Property lessor had begun cash payments under the lease. We expect the remaining three lessors to commence cash payments under their three leases in May 2018.

In the six months ended March 31, 2018, we incurred consulting costs of \$96,050 compared to \$49,500 in the comparable period of the prior year. We expended those fees as we have yet to build up a significant employee base and currently outsource certain tasks to consultants. We expect in the upcoming year to increase our consulting fees as we continue to grow, even though we do expect to increase staffing, as we do not expect that growth will be commensurate with our growth from operations in the near term.

In the six months ended March 31, 2018, we incurred professional fees of approximately \$397,243 compared to \$170,356 in the comparable period of the prior year. Those fees are primarily for legal, accounting and related services relating to our being a public company in both the United States and Canada. We expect as we grow our operations these costs will continue to grow.

In six months ended March 31, 2018, we incurred general and administrative costs of approximately \$878,238 compared to \$305,127, which included \$93,143 of costs related to the startup of operations of the OPCO entities to which we sublease the properties, in the comparable period of the prior year. Those costs include payroll, depreciation and amortization, insurance, rent expense and other general costs. We expect that these costs will increase as we increase our operations.

In the six months ended March 31, 2018, we incurred stock-based compensation of approximately \$698,000 compared to \$361,986 in the comparable period of the prior year, primarily the result of grants of stock and options to officers, directors and consultants. We expect that we will continue to use equity in the form of our common stock and options or warrants to compensate our employees and to reduce the cash compensation we will need to outlay to consultants in the upcoming year as we continue to grow our operations and devote our cash resources to acquiring new and improving our existing properties.

### **Properties**

In September 2016, the Company entered into a 10-year lease with respect to certain property located in Springfield, OR (the "42nd Street Property") 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 has subleased this space effective July 1, 2017. The 42nd Street Property is a 16,000-sq. ft. indoor cannabis growing facility.

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On November 1, 2016, the Company acquired certain property located in Eugene, OR (the "Willamette Property") for a total cash purchase price plus closing costs of approximately \$918,000. The Willamette Property is an operating cannabis dispensary.

On February 6, 2017, the Company acquired certain real property located at 7827 SE Powell Blvd, Portland, OR 97206 (the "Powell 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 Powell Property is a cannabis dispensary.

The note is non-interest bearing requires four monthly payments of \$75,000 plus a final payment for the remaining amount due immediately thereafter plus fees. 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. The Company and note holder have come to an agreement subsequent to September 30, 2017 to reduce by \$75,000 the balance due under the note, due to the Seller breaching certain sections of the Purchase and Sale Agreement dated November 15, 2016. As of March 31, 2018, the balance owed on the note was approximately \$79,000.

On April 15, 2017, the Company entered into a "Contract for Sale" for a Farm Property in Mulino OR (the "Mulino Property"), pursuant to which the seller will sell the premises to the Company upon the completion of the Company's due diligence 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 which will be reduced by a rental credit of approximately \$135,000, which is equivalent to nine months' rent at \$15,000 a month. In addition, the Seller has granted the Company a credit to be reflected upon closing in the amount \$9,500 for improvements to the property made by the Company. The Company expects that the closing of the property purchase will take place in January 2018. In connection with the purchase of the property, the Company will make a cash payment in the amount of \$362,254 and will issue a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. In April 2017, in order for the Company to make use of the premises pending closing of the purchase of the property, the Company agreed to lease the premises from the seller for a term commencing April 5, 2017 and expiring on the earlier of: (i) the termination of the Contract for Sale by either party thereto in accordance with its terms; and (ii) October 5, 2017. The lease requires the Company to pay a base rental fee of \$15,000 for the first nine months with no lease deposit required. All taxes accruing during the lease term (including real estate taxes and personal property taxes) are the responsibility of the Company. In October 2017, both parties agreed to extend the lease through January 2018. The Company closed on the purchase of the property in January 2018.

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. Each of these properties will be leased on a double net basis to qualified tenants. The Company will not be involved in the operation of these properties or in the growing or sale of cannabis.

The leases noted above all contain provisions in which the 10-year timetable for rent payments the individual renters incur under the leases do not begin until such time as the first cannabis growing season for the renters is completed. For the Willamette Property, that period ended at the end of July 2017, and rent payments commenced in August 2017. For the other three properties, the Company currently estimates that the growing season will end at the end of April 2018 and rent payments will commence in May 2018.

## LIQUIDITY AND FINANCIAL CONDITION

### Liquidity and Capital Resources

The Company had cash of \$2,418,637 as of March 31, 2018. Our primary uses of cash have been for salaries, fees paid to third parties for professional services, property operating expenses, general and administrative expenses, and the acquisition and development of rental properties. All funds received have been expended in the furtherance of growing the business. We have received funds from financing activities such as from the sale of our common stock.

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The following trends are reasonably likely to result in changes in our liquidity over the near to long term:

- An increase in working capital requirements to finance our current business,
- Acquisition and buildout of rental properties;
- Addition of administrative and sales personnel as the business grows and
- The cost of being a public company.

Our efforts to raise additional capital are ongoing.

We currently have committed that we would need to spend approximately \$2.7 million on capital expenditures for the expansion and buildout of our Powell and Springfield properties, and in addition, approximately \$1.25 million to complete the purchase of the Mulino Property. These capital expenditures are contingent upon several factors including the Company obtaining financing for the development of the properties and the construction of the tenant improvements in such amount and on such terms and provisions as are acceptable to the Company.

We have used our available funds to fund our operating expenses, pay our obligations, acquire and develop rental properties, and grow our company. We need to raise significant additional capital or debt financing to acquire new properties, to develop existing properties, and to assure we have sufficient working capital for our ongoing operations and debt obligations. There is no guarantee that such funding will be available to the Company at a viable cost, if at all.

## CRITICAL ACCOUNTING POLICIES

### Revenue Recognition

The Company recognizes rental revenue from tenants, including rental abatements, lease incentives and contractual fixed increases attributable to

operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured.

The Company makes estimates of the collectability of its tenant receivables related to base rents, straight-line rent and other revenues. In the current fiscal year, the Company began significant rental operations. The Company expects its analysis of any accounts receivable and evaluates the adequacy of the allowance for doubtful accounts, it considers such things as historical bad debts, tenant creditworthiness, current economic trends, facility operating performance, lease structure, developments relevant to a tenant's business, and changes in tenants' payment patterns. Specifically, for straight-line rent receivables, the Company's assessment includes an estimation of a tenant's ability to fulfill its rental obligations over the remaining lease term.

#### 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.

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#### 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.

#### CONTRACTUAL OBLIGATIONS AND 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. No amounts have been recorded for deferred rent in these financial statements as the amount was deemed immaterial by the Company. The Company has subleased this space pursuant to a 10-year lease. On February 22, 2018, both parties executed a lease addendum that adds contiguous property for 12,322 square feet. The term commences November 1, 2017 and continues through November 31, 2026 at a rate of \$3,525 a month that escalates 3% per year.

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, additional real estate assets held by entities related to those shareholders. The Agreement also gives the Company the right of first refusal in regard to certain properties owned by the persons and entities affiliated with the parties of the Agreement so long as certain targets are met.

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, if the Company obtains in excess of \$13 million through a combination of private placements and its merger with Patch Holdings, Inc., the cannabis affiliates become obligated to purchase preferred stock of the Company in an amount equivalent to 50% of their post-tax net operating income.

Certain shareholders of the Company have begun organizing entities that will operate directly in the cannabis industry, and the Company leases its properties to these entities. 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.

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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. Parties have verbally agreed. In November 2017, the Company entered into a consulting 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 business affairs relating to business consolidations and financing. As consideration for these services, the Company has agreed to issue to the consultant options to acquire up to 100,000 shares of common stock of the Company.

In March 2018, the Company entered into a 3-year lease for the occupancy of the Company's corporate office located in Boca Raton, Florida. The lease requires the Company to pay a base rental fee of \$3,024 per month. All taxes, maintenance and utilities are billed separately. In addition, the Company also remitted \$6,048 or a security deposit to the landlord. The landlord provided the Company with 2 free months.

January 16, 2018 the Company consummated a "Contract for Sale" for a Farm Property in Mulino OR (the "Mulino Property"). The purchase price is \$1,700,000 which is reduced by a rental credit of approximately \$135,000 which is equivalent to nine months' rent at \$15,000 a month and a additional credit of \$9,500 for additional work done on the property. In connection with the purchase of the property, the Company made a cash payment in the amount of \$370,637 and issued a promissory note in the amount of \$1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of \$13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full.

#### Property Rental Agreements

##### *1027 Willamette*

In July 2017, the Company entered into an operating lease agreement with a marijuana dispensary (the "Lessee") to move into the Company's acquired property located at 1027 Willamette Street in Eugene, Oregon. The lease agreement is for a base term of ten years (see note below) and a monthly rent obligation of \$13,800, subject to annual increases of 3% per year, plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the Tenant and insurance costs paid by the Company. The Company provided the tenant with one month of free rent. Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for one five-year term, on the same terms as provided in the lease agreement.

##### *Springfield Suites*

In July 2017, the Company entered into a lease agreement for its property and warehouse building located at 800 N 42nd street in Springfield, Oregon. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$64,640, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes to be paid by the Tenant and insurance costs paid by the Company. Rent payments commence on the date the growing season ends, which the Company currently estimates will occur in August 2018, and thus expects payments to begin in September 2018. The Company has treated this period as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

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##### *14336 S. Union Hall Road, Mulino*

In July 2017, the Company entered into a lease agreement for its property located at 14336 South Union Hall Road in Mulino, Oregon. The lease agreement is for a term of ten years (see note below) and a monthly rent obligation of \$18,750, subject to annual increases of 3% per year plus an amount for additional rent based on final buildout costs incurred by the Company. The lease is a double net lease with maintenance and real property taxes shall be paid by the Tenant and insurance costs paid by the Company. Rent payments will begin at the of the first growing season, which the Company currently estimates will occur in August 2018, and thus payments will commence in September 2018. The Company expects to treat such period as a free rental period for accounting purposes. At the time rental payments begin, the total of base rent and additional rent will not be less than \$1.00 per foot for light assisted greenhouse and \$.25 per usable square foot for un-light assisted greenhouse or outdoor grow space.

Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement.

##### *7827 SE Powell*

In July 2017, the Company entered into a lease agreement for its acquired property located at 7827 SE Powell Blvd. in Portland, Oregon. The lease agreement is for a term of ten years and a monthly rent obligation of \$6,523, subject to annual increases of 3% per year. Maintenance and real property taxes shall be paid by the Tenant and insurance paid by the Company. Additional rents will be added to pay landlord back for tenant improvements by the end of the first term of the lease, payments will include annual interest at 12% compounded monthly. Rent payments commence on the date the growing season ends, which the Company currently estimates will occur in August 2018, and thus expects payments to begin in September 2018. The Company has treated this period as a free rental period for accounting purposes. Upon the expiration of the term of ten years, the Lessee has the option to renew the lease agreement for five-year term, on the same terms as provided in the lease agreement. During the six months ended March 31,

2018, the Company incurred total rent expense of \$98,423. As of March 31, 2018, the Company has recorded a long-term asset for the straight lining of rent under the rental leases to the cannabis operators of approximately \$863,030.

#### OFF-BALANCE SHEET ARRANGEMENTS

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

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

#### ITEM 4. CONTROLS AND PROCEDURES

##### (a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)) as of the end of the quarterly period covered by this report, have concluded that our disclosure controls and procedures are not effective to reasonably ensure that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's Rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The principal basis for this conclusion is the lack of segregation of duties within our financial function and the lack of an operating Audit Committee.

##### (b) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) during the fiscal period to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

None.

#### ITEM 1A. RISK FACTORS

Smaller reporting companies are not required to provide the information required by this item.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth all securities issued by Stem since between January 1, 2018 and May 11, 2018:

	Date	Number of Shares	Security (issued or issuable)	Price US\$ per share
Investors in \$2.40/share Offering	1/2018-5/14/2018	1,062,459	Common Stock	\$ 2.40
Shares issued to Employees and Consultants	1/1/2018-4/11/2018	120,417	Common Stock	services provided

These shares were sold pursuant to an exemption from registration under Section 4(2) promulgated under the Securities Act of 1933, as amended.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

#### ITEM 5. OTHER INFORMATION

None.

#### ITEM 6. EXHIBITS

Exhibit No.	Description
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**G-1**

**SCHEDULE "G"**  
**AUDIT COMMITTEE CHARTER**

(as attached)

## **Stem Holdings, Inc.**

### **Audit Committee Charter**

#### **I. Purpose and authority**

The audit committee is established by and among the board of directors for the primary purpose of assisting the board in:

- Overseeing the integrity of the company's financial statements and the company's accounting and financial reporting processes and financial statement audits.
- Overseeing the company's compliance with legal and regulatory requirements.
- Overseeing the registered public accounting firm's (independent auditor's) qualifications and independence.
- Overseeing the performance of the company's independent auditor and internal audit function.
- Overseeing the company's systems of disclosure controls and procedures, internal controls over financial reporting, and compliance with ethical standards adopted by the company.

Consistent with this function, the audit committee should encourage continuous improvement of, and should foster adherence to, the company's policies, procedures, and practices at all levels. The audit committee should also provide for open communication among the independent auditor, financial and senior management, the internal audit function, and the board of directors.

The audit committee has the authority to conduct investigations into any matters within its scope of responsibility and obtain advice and assistance from outside legal, accounting, or other advisors, as necessary, to perform its duties and responsibilities.

In carrying out its duties and responsibilities, the audit committee shall also have the authority to meet with and seek any information it requires from employees, officers, directors, or external parties.

The company will provide appropriate funding, as determined by the audit committee, for compensation to the independent auditor, to any advisers that the audit committee chooses to engage, and for payment of ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

The audit committee will primarily fulfill its responsibilities by carrying out the activities enumerated in Section III of this charter.

#### **II. Composition and meetings**

The audit committee will comprise one or more directors as determined by the board. Each audit committee member will meet the applicable standards of independence and the determination of independence will be made by the board.

All members of the committee must comply with all financial-literacy requirements of the securities exchange(s) on which the company is listed. At least one member will qualify as an “audit committee financial expert” as defined by the SEC and determined by the board.

Committee members will be appointed by the board to serve until their successors are elected. Unless a chairperson is elected by the full board, the members of the committee may designate a chairperson by majority vote.

The committee will meet quarterly, or more frequently as circumstances dictate. The committee chairperson will approve the agenda for the committee’s meetings and any member may suggest items for consideration. Briefing materials will be provided to the committee as far in advance of meetings as practicable. Each regularly scheduled meeting will conclude with an executive session of the committee absent members of management. As part of its responsibility to foster open communication the committee members will have an open dialogue with management and will meet with the independent auditor and management to discuss the annual audited financial statements and quarterly financial statements, including the company’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

### **III. Responsibilities and duties**

#### **Documents/reports/accounting information review**

To fulfill its responsibilities and duties, the audit committee will:

1. Review this charter at least annually and recommend to the board of directors any necessary amendments.
2. Meet (telephonically if required) with management and the independent auditor to review and discuss the company’s annual financial statements and quarterly financial statements (prior to the company’s Form 10-Q filings or release of earnings), as well as all internal control reports (or summaries thereof). Review other relevant reports or financial information submitted by the company to any governmental body or the public, including management certifications as required by the Sarbanes-Oxley Act of and relevant reports rendered by the independent auditor (or summaries thereof).
3. Recommend to the board whether the financial statements should be included in the annual report on Form 10-K.
4. Discuss earnings press releases, including the type and presentation of information, paying particular attention to any pro forma or adjusted non-GAAP information. Such



discussions may be in general terms (i.e., discussion of the types of information to be disclosed and the type of presentations to be made).

5. Discuss financial information and earnings guidance provided to analysts and ratings agencies. Such discussions may be in general terms (i.e., discussion of the types of information to be disclosed and the type of presentations to be made).

6. Review the regular internal reports to management (or summaries thereof) prepared by the internal audit function, as well as management's response.

### **Independent Auditor**

7. Appoint (and recommend that the board submit for shareholder ratification, if applicable), compensate, retain, and oversee the work performed by the independent auditor retained for the purpose of preparing or issuing an audit report or related work. Review the performance and independence of the independent auditor and remove the independent auditor if circumstances warrant. The independent auditor will report directly to the audit committee and the audit committee will oversee the resolution of disagreements between management and the independent auditor if they arise.

8. Consider whether the auditor's provision of permissible non-audit services is compatible with the auditor's independence. Discuss with the independent auditor the matters required to be discussed under Statement on Auditing Standards (SAS) No. 61, as amended by AU Section 380, as adopted by the PCAOB.

9. Review with the independent auditor any problems or difficulties and management's response.

10. Review the independent auditor's report on the company's assessment of internal control over financial reporting.

11. Hold timely discussions with the independent auditor regarding the following:

- All critical accounting policies and practices
- All alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor
- Other material written communications between the independent auditor and management, including, but not limited to, the management letter and schedule of unadjusted differences.

12. At least annually, obtain and review a report by the independent auditor describing:

- The independent auditor's internal quality-control.
- Any material issues raised by the most recent internal quality-control review or peer review, or by any inquiry or investigation conducted by governmental or professional authorities during the preceding five years with respect to independent audits carried out

by the independent auditor, and any steps taken to deal with such issues.

- All relationships between the independent auditor and the company, addressing the matters set forth in PCAOB Rule 3526.

This report should be used to evaluate the independent auditor's qualifications, performance, and independence. Further, the committee will review the experience and qualifications of the lead partner each year and determine that all partner rotation requirements, as promulgated by applicable rules and regulations, are executed. The committee will also consider whether there should be rotation of the independent auditor itself.

13. Actively engage in dialogue with the independent auditor with respect to any disclosed relationships or services that may affect the independence and objectivity of the auditor and take appropriate actions to oversee the independence of the outside auditor.

14. Review and preapprove (which may be pursuant to preapproval policies and procedures) both audit and non-audit services to be provided by the independent auditor. The authority to grant preapprovals may be delegated to one or more designated members of the audit committee, whose decisions will be presented to the full audit committee at its next regularly scheduled meeting.

15. Set policies, consistent with governing laws and regulations, for hiring personnel of the independent auditor.

### **Financial reporting processes, accounting policies and internal control structure**

16. In consultation with the independent auditor and the internal audit function, review the integrity of the company's financial reporting processes (both internal and external).

17. Periodically review the adequacy and effectiveness of the company's disclosure controls and procedures and the company's internal control over financial reporting, including any significant deficiencies and significant changes in internal controls.

18. Understand the scope of the internal and independent auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with management responses.

19. Receive and review any disclosure from the company's President, CEO or CFO made in connection with the certification of the company's quarterly and annual reports filed with the SEC of: a) significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize, and report financial data; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls.

20. Review major issues regarding accounting principles and financial statement presentations, including any significant changes in the company's selection or application of accounting principles; major issues as to the adequacy of the company's internal controls; and

any special audit steps adopted in light of material control deficiencies.

21. Review analyses prepared by management (and the independent auditor as noted in item 11 above) setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements..
22. Review the effect of regulatory and accounting initiatives, as well as off-balance-sheet structures, on the financial statements of the company.
23. Review and approve all related-party transactions, defined as those transactions required to be disclosed under Item 404 of Regulation S-K.
24. Establish and oversee procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters, including procedures for confidential, anonymous submissions by company employees regarding questionable accounting or auditing matters.

#### **Ethical compliance, legal compliance, and risk management**

25. Oversee, review, and periodically update the company's code of business conduct and ethics and the company's system to monitor compliance with and enforce this code.
26. Review, with the company's counsel, legal compliance and legal matters that could have a significant impact on the company's financial statements.
27. Discuss policies with respect to risk assessment and risk management, including appropriate guidelines and policies to govern the process, as well as the company's major financial risk exposures and the steps management has undertaken to control them.
28. Consider the risk of management's ability to override the company's internal controls.

#### **Reporting**

29. Report regularly to the board regarding the execution of the audit committee's duties and responsibilities, activities, any issues encountered, and related recommendations.
30. Review and approve the report that the SEC requires be included in the company's annual proxy statement.

#### **Other responsibilities**

31. Review, with management, the company's finance function, including its budget, organization, and quality of personnel.
32. Conduct an annual performance assessment relative to the audit committee's purpose,

duties, and responsibilities outlined herein.

33. Perform any other activities consistent with this charter, the company's bylaws, and governing laws that the board or audit committee determines are necessary or appropriate.

## CERTIFICATE OF THE COMPANY

Pursuant to a resolution duly passed by its Board of Directors, Stem Holdings, Inc. hereby applies for the listing of the above mentioned securities on the Exchange. The foregoing contains full, true and plain disclosure of all material information relating to Stem Holdings, Inc. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated at Boca Raton, Florida, this 28<sup>th</sup> day of June, 2018.

(signed) "Adam Berk"

**Adam Berk**

Chief Executive Officer and Promoter

(signed) "Steve Hubbard"

**Steve Hubbard**

Chief Financial Officer and Promoter

(signed) "Garrett M. Bender"

**Garrett M. Bender**

Director and Promoter

(signed) "Lindy Snider"

**Lindy Snider**

Director