

*A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces of Alberta, British Columbia and Ontario, but has not yet become final. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be distributed until a receipt for the short form prospectus is obtained from the securities regulatory authorities.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. Stem Holdings, Inc. has filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), with respect to these securities.*

*Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of Stem Holdings, Inc. at 7777 Glades Road, Suite 203, Boca Raton, FL 33434, Telephone (917) 690-7665, and are also available electronically at [www.sedar.com](http://www.sedar.com).*



## PRELIMINARY SHORT FORM PROSPECTUS

New Issue

June 25, 2019

Stem Holdings, Inc.

**\$962,000 Principal Amount of 8.00% Senior Unsecured Convertible Debentures**  
**160,654 Warrants**  
**5,600 Broker Warrants**

This preliminary short form prospectus (this “**Prospectus**”) is being filed by Stem Holdings, Inc. (“**Stem**”, or the “**Company**”) to qualify the distribution of 962 convertible debenture units (the “**Convertible Debenture Units**”) of the Company, each Convertible Debenture Unit being comprised of \$1,000 principal amount 8.0% senior unsecured convertible debenture (each a “**Convertible Debenture**”) of the Company and 167 common share purchase warrants of the Company (each, a “**Warrant**” and collectively with the Convertible Debentures, the “**Underlying Securities**”), upon the deemed exercise of 962 special warrants of the Company (the “**CD Special Warrants**”) previously issued on March 14, 2019 (the “**Closing Date**”) at a price of \$1,000 per CD Special Warrant (the “**Offering Price**”) to purchasers resident in Alberta, British Columbia and Ontario (the “**Qualifying Jurisdictions**”) (in addition to purchasers resident in the United States) on a private placement basis pursuant to prospectus exemptions under applicable securities legislation (the “**Offering**”). The Company also issued 3,121 CD Special Warrants to purchasers resident in Alberta, British Columbia and Ontario in addition to purchasers resident in the United States) on a private placement basis pursuant to prospectus exemptions under applicable securities legislation on December 27, 2018 (the “**December Tranche**”). This Prospectus also qualifies the distribution of 5,600 Broker Warrants (as defined herein) to the Agents. See “*Plan of Distribution*”.

The CD Special Warrants were issued pursuant to the terms of a special warrant indenture dated December 27, 2018 (the “**Special Warrant Indenture**”) between the Company and Olympia Trust Company, as special warrant agent

thereunder (the “**Special Warrant Agent**”), and an agency agreement dated December 27, 2018 (the “**Agency Agreement**”) between the Company and Canaccord Genuity Corp, as sole bookrunner and lead agent (the “**Lead Agent**”), and Beacon Securities Limited (collectively with the Lead Agent, the “**Agents**”). The Offering Price and other terms of the Offering were determined by arm’s length negotiations between the Company and the Agents. See “*Plan of Distribution*”.

The Convertible Debentures will be issued pursuant to the terms of a convertible debenture indenture dated December 27, 2018 (the “**CD Indenture**”) between the Company and Olympia Trust Company, as trustee thereunder (the “**Trustee**”), The Convertible Debentures bear interest from the Closing Date at 8% per annum and will be convertible, at the holder’s option, into common shares (the “**Debenture Shares**”) of the Company at a price of \$3.00 per Debenture Share (the “**Conversion Price**”) at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the date which is two (2) years from the date of issuance of the Convertible Debentures (the “**Maturity Date**”); and (ii) the last business day immediately preceding the date fixed for redemption in connection with a Change of Control (as defined herein). See “*Description of Securities Being Distributed*”.

The Warrants will be issued pursuant to the terms of a warrant indenture dated December 27, 2018 (the “**Warrant Indenture**”) between the Company and Olympia Trust Company, as warrant agent thereunder (the “**Warrant Agent**”). Each Warrant entitles the holder thereof to purchase one Common Share (as defined herein) in the capital of the Company (a “**Warrant Share**”) at a price of \$3.90 per Warrant Share for a period of 24 months following the Closing Date, subject to adjustment in certain events as set out in the Warrant Indenture. See “*Description of Securities Being Distributed*”.

The Broker Warrants will be issued pursuant to the terms of a certificate representing the broker special warrants (the “**Broker Special Warrants**”) dated on the Closing Date. Each Broker Warrant shall be exercisable to acquire one compensation unit of the Company (each, a “**Compensation Unit**”) at an exercise price of \$3.00 per Compensation Unit for twenty-four (24) months from the Closing Date. Each Compensation Unit will be comprised of one Common Share (“**Agents’ Commission Share**”) and one-half of one Warrant (“**Agents’ Commission Warrant**”). Each whole Agents’ Commission Warrant will entitle the holder thereof to acquire one Warrant Share (“**Agents’ Commission Warrant Share**”) at an exercise price of \$3.90, until the date that is twenty-four (24) months following the Closing Date. See “*Description of Securities Being Distributed*”.

**There is no market through which the CD Special Warrants, Convertible Debenture Units, Convertible Debentures or Warrants may be sold, and purchasers may not be able to resell the CD Special Warrants, Convertible Debenture Units, Convertible Debentures or Warrants acquired pursuant to the Offering. This may affect the pricing of the CD Special Warrants, Convertible Debenture Units, Convertible Debentures or Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the CD Special Warrants, Convertible Debenture Units, Convertible Debentures or Warrants and the extent of issuer regulation. See “*Risk Factors*”.**

**The CD Special Warrants are not available for purchase pursuant to this Prospectus and no additional funds are to be received by the Company from the distribution of the securities issuable upon deemed exercise of the CD Special Warrants.**

The outstanding common shares of the Company (the “**Common Shares**”) are listed for trading on the Canadian Securities Exchange (“**CSE**”) under the symbol “**STEM**” and are also listed on the OTCQB Venture Market (“**OTCQB**”) under the symbol “**STMH**”. On March 13, 2019, the last trading day before the Closing Date, the closing price of the Common Shares on the CSE was \$1.70 per Common Share. On June 24, 2019, the last trading day before the date of this Prospectus, the closing price of the Common Shares on the CSE was \$1.84 per Common Share.

	<u>Price to the Subscribers</u>	<u>Agents' Commission<sup>(1)(3)</sup></u>	<u>Net Proceeds to the Company<sup>(2)</sup></u>
Per Special Warrant .....	\$1,000	\$17.46	\$982.54
Total.....	\$962,000	\$16,800	\$945,200

**Notes:**

- (1) Pursuant to the Agency Agreement, the Agents were paid a cash commission (the “**Agents’ Commission**”) of \$16,800. The Agents were also granted 5,600 Broker Special Warrants. Each Broker Special Warrant is exercisable, on the same terms as the CD Special Warrants, for one broker warrant of the Company (a “**Broker Warrant**”). Each Broker Warrant shall be exercisable to acquire one Compensation Unit at an exercise price of \$3.00 per Compensation Unit for twenty-four (24) months from the Closing Date. Each Compensation Unit will be comprised of one Agents’ Commission Share and one-half of one Agents’ Commission Warrant. Each whole Agents’ Commission Warrant will entitle the holder thereof to acquire one Agents’ Commission Warrant Share at an exercise price of \$3.90, until the date that is twenty-four (24) months following the Closing Date. Pursuant to the Agency Agreement, the Company also: (i) paid the Lead Agent a corporate finance fee of \$50,000 (the “**Corporate Finance Fee**”); and (ii) issued the Lead Agent 16,666 Common Shares (the “**Corporate Finance Shares**”). See “*Plan of Distribution*”.
- (2) After deducting the Agents’ Commission but before deducting the Corporate Finance Fee and other certain fees and expenses of the Offering (the “**Agents’ Expenses**”) and the qualification for distribution of the securities, estimated to be \$181,000, which, together with the Agents’ Commission, were paid out of general funds of the Company.
- (3) Excluding cash commissions of \$157,290 that were paid to the Agents in connection with the December Tranche. Excluding the Common Shares issuable from the 52,430 Broker Warrants issued to the Agents in connection with the December Tranche.

The following table sets out the number of securities that may be issued by the Company to the Agents pursuant to the Agency Agreement:

<b>Agents’ Positions</b>	<b>Number of Additional Securities<sup>(2)</sup></b>	<b>Exercise Period</b>	<b>Exercise Price</b>
Broker Warrants <sup>(1)</sup>	5,600 Agents’ Commission Shares and 2,800 Agents’ Commission Warrants	24 months following the Closing Date	\$3.00 per Compensation Unit
Agents’ Commission Warrants	2,800 Agents’ Commission Warrant Shares	24 months following the Closing Date	\$3.90 per Agents’ Commission Warrant Share
Corporate Finance Shares	16,666 Common Shares	N/A	N/A
Total securities issuable to Agents	25,066 Common Shares	N/A	N/A

**Note:**

- (1) This Prospectus qualifies the grant of 5,600 Broker Warrants. See “*Plan of Distribution*”.
- (2) Excluding the Common Shares issuable from the 52,430 Broker Warrants issued to the Agents in connection with the December Tranche.

Each CD Special Warrant will be exchanged (with no further action on the part of the holder thereof and for no further consideration) for one Convertible Debenture Unit on the date (the “**Automatic Exercise Date**”) that is the earlier of: (i) the third business day after the date on which both (A) a receipt (“**Receipt**”) for a (final) prospectus (the “**Qualification Prospectus**”) qualifying the distribution of the Convertible Debentures and Warrants issuable upon exercise of the CD Special Warrants has been issued by the applicable securities regulatory authorities in the Canadian jurisdictions in which purchasers of the CD Special Warrants are resident, and (B) a registration statement (the “**Registration Statement**”) registering the resale of the common shares underlying the Convertible Debentures and Warrants has been declared effective by the Securities and Exchange Commission (the “**Qualification Event**”); and (ii) the date that is six months and one day following the Closing Date (the “**Time of Expiry**”).

If the Qualification Event has not occurred on or before the date that is 120 days following the Closing Date (the “**Qualification Deadline**”), each unexercised CD Special Warrant will thereafter entitle the holder to receive upon the exercise thereof, at no additional cost (the “**Penalty Provision**”), 1.05 Convertible Debenture Units per CD Special Warrant (instead of one (1) Convertible Debenture Unit) (the “**Penalty Units**”). This Prospectus also qualifies the distribution of any Penalty Units upon deemed exercise of the CD Special Warrants. Unless the context otherwise requires, all references herein to the “Offering”, “Convertible Debenture Units”, “Convertible Debentures”, “Warrants” and “Common Shares” shall include any underlying securities comprising the Penalty Units that may be issued in connection with the Penalty Provision. See “*Plan of Distribution*”.

**The Company has not authorized anyone to provide purchasers with information different from that contained or incorporated by reference in this Prospectus. An investment in the securities of the Company is highly speculative and involves significant risks that should be carefully considered by prospective investors before purchasing such securities. The risks outlined in this Prospectus and in the documents incorporated by reference herein should be carefully reviewed and considered by prospective investors in connection with an investment in such securities. See “*Risk Factors*”. Potential investors are advised to consult their own legal counsel and other professional advisers in order to assess income tax, legal and other aspects of this investment.**

**Investors are advised to consult their own tax advisors regarding the application of Canadian federal income tax laws to their particular circumstances, as well as any other provincial, foreign and other tax consequences of acquiring, holding or disposing of the CD Special Warrants, Convertible Debenture Units, Convertible Debentures, Warrants and Common Shares.**

Unless otherwise indicated, all references to dollar amounts in this Prospectus are to Canadian dollars. Readers should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the cover page of this Prospectus.

Reference to “United States” or “U.S.” are references to the United States of America.

Certain legal matters in connection with the Offering and this Prospectus have been or will be reviewed on behalf of the Company by Dentons Canada LLP and on behalf of the Agent by DLA Piper (Canada) LLP.

The Company is incorporated under the laws of a foreign jurisdiction, and all of the directors and officers of the Company and L J Soldinger Associates, LLC, the auditors to the Company, reside outside of Canada. Each of the Company, its directors, officers and L J Soldinger Associates, LLC have appointed Dentons Canada LLP, 77 King Street West, Suite 400, Toronto, ON M5K 0A1, as agent for service of process in Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process. See “*Enforcement of Judgments Against Foreign Persons*”.

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.

**This Prospectus qualifies the distribution of securities of an entity that currently directly or indirectly derives a portion of its revenues from the cannabis industry in certain U.S. states, which industry is illegal under U.S. federal law and enforcement of relevant laws is a significant risk. The Company is directly or indirectly involved (through subsidiaries and affiliates) in the cannabis industry in the states of Nevada, Oregon, Oklahoma and California.**

**The U.S. federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811) (the “CSA”), which places controlled substances, including cannabis, in a schedule. Cannabis is classified 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 the United States, and a lack of accepted safety for the use of the drug under medical supervision. The United States Food and Drug Administration (the “FDA”) has not approved cannabis as a**

safe and effective drug for any indication.

In the United States, cannabis is largely regulated at the state level. State laws regulating cannabis are in direct conflict with the federal CSA, which makes cannabis use and possession federally illegal. Although certain states authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under U.S. federal law. 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.

On January 4, 2018, former U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum (as defined herein). With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law. If the U.S. Department of Justice policy was to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Company could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, and (ii) the arrest of its employees, directors, officers, managers and investors, who could face charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to state- licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis. Additionally, as has recently been affirmed by U.S. Customs and Border Protection, employees, directors, officers, managers and investors of the Company who are not U.S. citizens face the risk of being barred from entry into the United States for life.

There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. 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 U.S. federal authorities may enforce current U.S. federal law. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Company's business, results of operations, financial condition and prospects would be materially adversely affected.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018, the Canadian Securities Administrators published a revised staff notice ("Staff Notice 51-352") setting out the Canadian Securities Administrator's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to parties involved in the U.S. cannabis industry.

For these reasons, the Company's operations in the United States cannabis market may subject the Company to heightened scrutiny by regulators, stock exchanges, clearing agencies and other Canadian authorities. There are a number of risks associated with the business of the Company. See section entitled "*Risk Factors*" in this Prospectus.

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Prospectus, including the documents incorporated herein by reference, contains “forward-looking information” within the meaning of applicable Canadian securities legislation, which is based upon the Company’s current internal expectations, estimates, projections, assumptions and beliefs. Often, but not always, forward-looking information can be identified by the use of words and phrases such as “plans”, “expects”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes” or similar expressions or variations (including negative and grammatical variations) of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. The forward-looking information included in this Prospectus is made only as of the date of this Prospectus or the document incorporated herein by reference, as applicable. Such forward-looking information may include, but is not limited to, statements with respect to: (i) the future financial or operating performance of the Company and its subsidiaries; (ii) the Company’s expectations with respect to future growth; (iii) the availability of sources of income to generate cash flow and revenue; (iv) the dependence on management and directors; (v) risks relating to additional funding requirements; (vi) exchange rate risks; (vii) risks relating to laws and regulations applicable to the production and sale of cannabis; (viii) regulatory risks associated with the operations of the Company; (ix) timing and development of current and future projects; (x) the Company’s competitive position; and (xi) the closing of the Yerba Buena Acquisition (as defined herein) and the Reorganization (as defined herein).

Forward-looking information is based on the reasonable assumptions, estimates, analyses and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, but which may prove to be incorrect. This Prospectus, including the documents incorporated herein by reference, may contain statements containing forward-looking information attributed to third party industry sources. The forward-looking information contained or incorporated by reference herein is based on certain assumptions, including without limitation: (i) receipt and/or maintenance by the Company and its subsidiaries of required permits and third party consents in a timely manner or at all; (ii) the Company will be able to generate cash flow from operations and obtain necessary financing on acceptable terms; (iii) general economic, financial market, regulatory and political conditions in which the Company operates will remain the same or will develop in accordance with publicly disclosed proposals; (iv) the Company will be able to compete as a real estate company specializing in the cannabis industry; (v) the Company will be able to manage anticipated and unanticipated costs; (vi) the Company will be able to maintain appropriate internal controls over financial reporting and appropriate disclosure controls and procedures; (vii) consumer interest in cannabis products; (viii) the timely receipt of any required regulatory approvals; (ix) the Company’s ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; (x) the Company’s ability to conduct operations in a safe, efficient and effective manner; (xi) the Company using the proceeds of the Offering and the December Tranche as set out herein; and (xii) the closing of the Yerba Buena Acquisition and the Reorganization.

Although the Company believes that the expectations reflected in such forward-looking information are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company’s forward-looking information is expressly qualified in its entirety by this cautionary statement. In particular, but without limiting the foregoing, statements regarding the Company’s objectives, plans and goals, including future operating results and economic performance may make reference to or involve forward-looking information. The purpose of forward-looking information is to provide prospective investors with a description of management’s expectations, and such forward-looking information may not be appropriate for any other purpose. Prospective investors should not place undue reliance on forward-looking information contained in this Prospectus, including the documents incorporated herein by reference, as statements containing forward-looking information involve significant risks and uncertainties and should not be read as guarantees of future results, performance, achievements, prospects and opportunities. The Company undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking information. Some of the risks and other factors which could cause actual results to differ materially from those expressed in the forward-looking information contained in this Prospectus, including the documents incorporated herein by reference, include, but are not limited to, the factors described under “Risk Factors” in this Prospectus.

## GENERAL MATTERS

Unless the context otherwise requires, any references in this Prospectus to the “Company” or “Stem” refer to Stem Holdings, Inc. and its subsidiaries.

## MARKET AND INDUSTRY DATA

Unless otherwise indicated, information contained in this Prospectus, including the documents incorporated herein by reference, concerning the Company’s industry and the markets in which it operates or seeks to operate is based on information from third party sources, industry reports and publications, websites and other publicly available information, and management studies and estimates. Unless otherwise indicated, the Company’s estimates are derived from publicly available information released by third party sources as well as data from the Company’s own internal research, and include assumptions which the Company believes to be reasonable based on management’s knowledge of the Company’s industry and markets. The Company’s internal research and assumptions have not been verified by any independent source, and the Company has not independently verified any third party information. While the Company believes that such third party information to be generally reliable, such information and estimates are inherently imprecise. In addition, projections, assumptions and estimates of the Company’s future performance or the future performance of the industry and markets in which the Company operates are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in this Prospectus under “Risk Factors” and “Cautionary Statement Regarding Forward-Looking Information” and in the AIF (as defined herein) under “Risk Factors”.

## CURRENCY PRESENTATION AND EXCHANGE RATES

Unless the context otherwise requires, all references to “\$”, “C\$” and “dollars” mean references to the lawful money of Canada. All references to “US\$” refer to United States dollars.

The following table sets forth, for each of the periods indicated, the period end exchange rate, the average exchange rate and the high and low exchange rates of one United States dollar in exchange for Canadian dollars, based on the historical noon exchange rates or, after January 1, 2017, the daily exchange rates, as reported by the Bank of Canada.

	Three-Months Ended March 31		Year Ended December 31	
	2019	2018	2018	2017
	\$	\$	\$	\$
High.....	1.3600	1.3088	1.3641	1.3743
Low.....	1.3095	1.2288	1.2288	1.2128
Average.....	1.3295	1.2647	1.2957	1.2986
Period End.....	1.3363	1.2894	1.3642	1.2545

On June 24, 2019, the daily exchange rate for the United States dollar in terms of Canadian dollars, as quoted by the Bank of Canada, was US\$1.00 = \$1.3194.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the securities commission or similar regulatory authority in each of the provinces of Alberta, British Columbia and Ontario, are available at [www.sedar.com](http://www.sedar.com) and [www.sec.gov](http://www.sec.gov) and are specifically incorporated by reference into, and form an integral part of, this Prospectus:

- (a) the annual report of the company under the United States Securities and Exchange Act of 1934 (“1934 Act”) on Form 10-K (the “AIF”);



- (b) the consolidated financial statements of the Company as at and for the year ended September 30, 2018 and 2017, together with the notes thereto and the auditor's report thereon;
- (c) the management's discussion and analysis of the Company for the quarter ended March 31, 2019, prepared in accordance with Item 303 of Regulation S-K under the 1934 Act;
- (d) the interim consolidated financial statements of the Company as at March 31, 2019 and for the six months ended March 31, 2019, together with the notes thereto;
- (e) the management's discussion and analysis of the Company for the year ended September 30, 2018, prepared in accordance with Item 303 of Regulation S-K under the 1934 Act;
- (f) the material change report of the Company dated April 3, 2019 regarding the entering into of a definitive agreement to acquire WCV (as defined herein);
- (g) the material change report of the Company dated April 1, 2019 regarding the entering into of the share purchase agreement for the acquisition of SAV (as defined herein);
- (h) the material change report of the Company dated March 18, 2019 regarding the closing of the Offering;
- (i) the material change report of the Company dated March 5, 2019 regarding receipt of regulatory approvals in respect of the YMY Acquisition and the closing of the YMY Acquisition;
- (j) the material change report of the Company dated February 14, 2019 regarding the resignation of a director of the Company;
- (k) the material change report of the Company dated February 12, 2019 regarding the entering into of the asset purchase agreement for the purchase of the Yerba Buena business;
- (l) the material change report of the Company dated December 27, 2018 regarding the entering into of the Agency Agreement and the close of the December Tranche; and
- (m) the material change report of the Company dated November 5, 2018 regarding the Offering and the December Tranche;
- (n) the management proxy circular of the Company dated June 25, 2018, prepared in connection with an annual and special meeting of the shareholders of the Company held on July 13, 2018; and
- (o) the draft management proxy circular of the Company dated June 2019, prepared in connection with an annual meeting of the shareholders of the Company held on August 13, 2018

Any documents of the type required by Item 11.1 of Form 44-101F1 – *Short Form Prospectus*, filed by the Company with a securities commission or similar regulatory authority in any of the provinces of Alberta, British Columbia and Ontario, pursuant to the requirements of applicable securities legislation after the date of this Prospectus and prior to the termination of the distribution of this Offering shall be deemed to be incorporated by reference into this Prospectus.

**Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not constitute a part of this Prospectus, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the statement or document that it modifies or supersedes. The making of such a modifying or superseding statement will not be deemed an admission for any purpose that the modified or**

**superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed in its unmodified or superseded form to constitute part of this Prospectus.**

## DESCRIPTION OF THE BUSINESS

### **Name, Address and Incorporation**

Stem Holdings, Inc. was incorporated on June 7, 2016 as a State of Nevada corporation under Chapter 78 of the Nevada Revised Statutes. The Common Shares are listed for trading on the CSE under the symbol “STEM” and on the OTCQB under the symbol “STMH”.

On May 31, 2018, the board of directors of the Company (the “**Board of Directors**”) 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.

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.

### **Business of the Company**

As a vertically integrated cannabis company, Stem has positioned itself as a pioneer in the industry with its state-of-the-art cultivation, processing, extraction, retail, and distribution processes. Stem has an interest in, or is in the process of acquiring an interest in, cannabis facilities in Nevada, Oklahoma, Oregon and California, and also participates in a research project in collaboration with Cornell University. Utilizing proprietary, sustainable cultivation techniques, Stem, or its affiliates, develop exceptional products that are safe and consist of lab-tested cannabis and CBD (as defined herein). Stem's partner consumer brands are award-winning and nationally known, and include: cultivators, TJ's Gardens and Yerba Buena; retail brands, Stem and TJ's; infused product manufacturers, Cannavore and Supernatural Honey; and a CBD company, Dose-ology. Stem's mission in supporting the health and happiness of people and the safety of the planet is evident through the Company's continued recognition for its community involvement, employee diversification and a top place to work in cannabis, dedication to environmental causes and outstanding leadership in the cannabis industry.

### **Recent Developments**

On December 27, 2018, the Company announced the closing of the December Tranche, consisting of the sale of 3,121 CD Special Warrants at a price of \$1,000 per CD Special Warrant for aggregate gross proceeds of \$3,121,000.

On February 11, 2019, the Company announced the entering into of an asset purchase agreement between Stem Holdings Oregon, Inc., a wholly owned subsidiary of the Company, and Yerba Oregon, LLC (“**Yerba Buena**”), whereby the Company would purchase certain assets and assume certain liabilities of Yerba Buena for share consideration of 1,931,506 Common Shares, having a value of US\$4,442,464 (the “**Yerba Buena Acquisition**”). Closing of the Yerba Buena Acquisition is subject to a number of conditions, including receipt of certain regulatory approvals. Yerba Buena holds an interest in 1 producer license in the state of Oregon. Based on the current regulatory approval process, the Company expects to close the Yerba Buena Acquisition before September 1, 2019.

On February 13, 2019, Rajiv Rai resigned from the Company's Board of Directors.

On February 28, 2019, the Company announced that YMY Ventures LLC (“**YMY**”) received approval from the State of Nevada Department of Taxation in respect of the proposed transfer of 50% of the membership interest of YMY to Stem (the “**YMY Acquisition**”) pursuant to an agreement between Stem and the owners of YMY dated September 2018. On March 1, 2019, the Company closed the YMY Acquisition.

On March 15, 2019, the Company announced the closing of the Offering, consisting of the sale of 962 CD Special Warrants at a price of \$1,000 per CD Special Warrant for aggregate gross proceeds of \$962,000, bringing the total aggregate proceeds for the Offering and the December Tranche to \$4,083,000.

On March 18, 2019, the Company announced that one of the facilities to be acquired pursuant to the Reorganization, TJ's on Powell, received a license and final approval from the Oregon Liquor Control Commission to operate a dispensary in Portland, Oregon.

On March 25, 2019, the Company announced it executed a definitive agreement dated March 22, 2019 to acquire South African Ventures, Inc. ("SAV"). SAV has a joint venture (the "SAV JV") with Profile Solutions, Inc. (OTC: PSIQ) and a working capital surplus of approximately \$11,000,000. On March 29, 2019, the Company closed the previously announced acquisition of SAV. The consideration for the acquisition of SAV was 8,250,000 Common Shares, having a value of approximately \$19,000,000 based on Stem's closing trading price on March 21, 2019.

On April 2, 2019, the Company announced that it executed a definitive agreement dated March 29, 2019 to acquire Western Coast Ventures, Inc. ("WCV"). WCV has a joint venture (the "WCV JV") with ILCA Holdings, Inc. ("ILCA") and a working capital surplus of approximately US\$2,000,000. ILCA has been issued a limited conditional use permit for a marijuana production facility ("MPF") by the city of San Diego, California. On April 12, 2019, the Company closed the previously announced acquisition of WCV. The consideration for the acquisition of WCV was 2,000,000 Common Shares, having a value of approximately US\$3,500,000 based on Stem's closing trading price on March 29, 2019.

On April 29, 2019, the Company issued an aggregate 12,500,000 common shares of Stem in connection with the proposed reorganization of the Company, Consolidated Ventures of Oregon, Inc. and Opco Holdings, Inc. (the "Reorganization"). Closing of the Reorganization is not expected until at least August 20, 2019. Such common shares of the Company are being held in escrow until the closing of the Reorganization. Upon closing of the Reorganization, Stem will acquire an interest in three retail licenses, four producer licenses, one wholesale license, one extraction license, one edibles license, two hemp cultivation licenses and two hemp processing licenses.

## REGULATORY OVERVIEW

In accordance with Staff Notice 51-352, below is a discussion of the federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly or indirectly involved through its subsidiaries and affiliates. The Company's subsidiaries or affiliates are directly or indirectly engaged, or will be engaged, in the manufacture, possession, use, sale or distribution of cannabis in the adult use and/or medicinal cannabis marketplace in the states of Nevada, Oregon, Oklahoma and California. In accordance with Staff 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 and amended 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 cannabis regulation. Any non-compliance, citations or notices of violation which may have a material impact on the Company's licenses, business activities or operations will be promptly disclosed by the Company.

### Regulation of Cannabis in the United States Federally

As of the January 16, 2018, the United States Supreme Court has ruled that Congress has the power to regulate cannabis.

The United States federal government regulates drugs through the CSA, which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. The Department of Justice defines Schedule I drugs, substances or chemicals as "drugs with no currently accepted medical use and a high potential for abuse." **The FDA has not approved cannabis as a safe and effective drug for any indication.**

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of cannabis under the *Cannabis Act* (Canada), cannabis is largely regulated at the state level in the United States.

**State laws regulating cannabis are in direct conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain states and territories of the U.S. authorize medical or adult use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under any and all circumstances under the Controlled Substances Act. Although the Company's activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.**

The risk of federal enforcement and other risks associated with the Company's business are described under "*Risk Factors*" in this Prospectus

## **Regulation of the Cannabis Market at State and Local Levels**

### **California**

#### *History*

In 1996, California voters passed a medical cannabis law allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and providing immunity/defense to criminal proceedings. The law was amended in 2003 to expand the criminal defense to groups of patients/caregivers, but there was no state licensing authority to oversee the businesses that emerged as a result of the system. In September 2015, the California legislature passed three bills, collectively known as the "Medical Marijuana Regulation and Safety Act" ("**MMRSA**") later referred to as MCRSA after an amendment changed the word "Marijuana" to "Cannabis"). In 2016, California voters passed the "Adult Use of Marijuana Act" ("**AUMA**"), which legalized adult-use cannabis for adults 21 years of age and older and created a licensing system for commercial cannabis business. On June 27, 2017, Governor Brown signed SB-94 into law. SB-94 combines California's medicinal and adult-use regulatory framework into one licensing structure under the Medicinal and Adult-Use of Cannabis Regulation and Safety Act ("**MAUCRSA**").

#### *Regulatory Summary*

Pursuant to MAUCRSA: (i) the California Department of Food and Agriculture, via CalCannabis, issues licenses to cannabis cultivators, (ii) the California Department of Public Health, via the Manufactured Cannabis Safety Branch (the "**MCSB**") issues licenses to cannabis manufacturers and (iii) the California Department of Consumer Affairs, via the Bureau of Cannabis Control (the "**BCC**"), issues licenses to cannabis distributors, testing laboratories, retailers, and micro-businesses. These agencies also oversee the various aspects of implementing and maintaining California's cannabis landscape, including the statewide track and trace system. All three agencies released their emergency rulemakings at the end of 2017 and have begun issuing licenses.

In July, 2017, the State of California established the MCSB to develop statewide standards, regulations, and licensing procedures in relation to cannabis, and is addressing policy issues in support of cannabis manufacturers. MCSB is responsible for issuing licenses to manufacturers of cannabis products.

To operate legally under state law, cannabis operators must obtain the requisite state licensure and local approval. Local authorization is a prerequisite to obtaining state licensure, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under the MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. However, a licensee is not prohibited from performing testing on the licensee's premises for the purposes of quality assurance of a cannabis product in conjunction with reasonable business operations (testing conducted on a licensee's premises by the licensee does not meet the testing requirements required under the MAUCRSA). There are also no residency requirements for ownership under MAUCRSA.

### *Company Licenses*

As a result of the acquisition of WCV, the Company is a party to the WCV JV. ILCA, as the other party in the WCV JV, has been issued a limited conditional use permit for a cannabis production facility by the City of San Diego. Upon issuance of the final MPF permit and the completed construction of the facility, the WCV JV will: (i) operate an advanced cannabis facility to grow and cultivate cannabis; (ii) manufacture cannabis-derived products; and (iii) distribute cannabis and cannabis-derived products state-wide throughout California.

## **Oregon**

### *History*

Oregon's medical cannabis program was introduced in November 1998 when voters approved Measure 67, the Oregon Medical Marijuana Act, with 55% of the vote. In November 2014, voters approved Measure 91, the 'Oregon Legalized Marijuana Initiative,' which legalized adult-use cannabis in the state. In October 2015, the first adult-use dispensaries opened for sale.

### *Regulatory Summary*

There are four types of adult-use cannabis licenses: producer, processor, wholesaler and retail. Additionally, the Oregon Liquor Control Commission ("OLCC") grants a certificate for research and a hemp certificate. A producer is permitted to cultivate cannabis. A processor is permitted to transform raw cannabis into another product (topicals, edibles, concentrates, or extracts). A wholesaler is permitted to buy cannabis in bulk and sell to licensees but not to consumers. A retailer is permitted to sell cannabis to consumers. A laboratory is permitted to test cannabis based on rules established by the Oregon Health Authority. To receive a laboratory license the laboratory must be accredited by the Oregon Environmental Laboratory Accreditation program. The hemp certificate allows persons that are registered with the Oregon Department of Agriculture to transfer hemp flower, extracts, or concentrates to OLCC licensed processors who hold an industrial hemp processor endorsement.

### *Company Licenses*

After giving effect to the Reorganization and the Yerba Buena Acquisition, the Company will hold, directly or indirectly, five producer licenses, three retail licenses, one wholesale license, one extraction license, one edibles license, two hemp processing licenses and two hemp cultivation licenses in the State of Oregon. See "*Description of the Business – Recent Developments*".

## **Nevada**

### *History*

Nevada's medical cannabis market was introduced in June 2013 when the legislature passed SB374, legalizing the medicinal use of cannabis for certified patients. The first dispensaries opened to patients in August 2015.

In November 2016, Nevada voters approved Question 2 with 55% of the vote, legalizing adult-use cannabis in the state. Adult-use sales launched under an "early-start" program on July 1, 2017.

### *Regulatory Summary*

This market is divided into three classes of licenses: dispensaries, cultivators, and processors. Wholesaling occurs between cultivators and processors, cultivators and dispensaries, and processors and dispensaries. Licenses are tied to the locality in which they were awarded. Extracted oils, edibles, and flower products are permitted.

### *Company Licenses*

YMY, in which the Company owns a 50 percent interest, holds one medical cultivation license and one recreational cultivation license and one medical production license and one recreational production license in the State of Nevada. See "*Description of the Business – Recent Developments*".

## **Oklahoma**

### *History*

Oklahoma's medical cannabis market was introduced in June 2018 when voters approved State Question 788, with 56.86% of the vote.

The Oklahoma State Department of Health, which is responsible for establishing regulations for the implementation of State Question 788, released a draft of the proposed rules on July 8, 2018. After a series of revisions, Governor Mary Fallin signed and approved the rules on August 1, 2018. Operating under the Oklahoma State Department of Health is the OMMA which is responsible for licensing, regulation, and administering the program as authorized by state law. On August 25, 2018 the OMMA began accepting online applications for medical cannabis licenses.

### *Regulatory Summary*

There are four licenses available for commercial applicants: (i) a medical cannabis grower license; (ii) a medical cannabis processor license; (iii) a medical cannabis dispensary license; and (iv) a medical cannabis transportation license.

A medical cannabis grower license allows a business to legally grow cannabis for medical purposes in Oklahoma. Licensed growers can sell to licensed processors and licensed dispensaries only.

A medical cannabis processor license allows a business to legally process cannabis for medical purposes in Oklahoma. Licensed processors can sell to licensed dispensaries and other licensed processors. Licensed processors may also process cannabis into a concentrated form for a patient license holder for a fee. All growing and processing of cannabis must take place indoors in a building that has a complete roof enclosure on a foundation or slab that meets standards that ensure that the growing and processing activities contained within are undetectable.

A medical cannabis dispensary license allows a business to legally sell medical cannabis and medical cannabis products, including mature plants and seedlings. Licensed dispensaries can only sell to patient license holders, caregiver license holders, research license holders, and the parent or legal guardian named on a minor patient's license. Dispensaries must be at least 1,000 feet from schools and may only be open to the public on Monday through Saturday, from 10:00 a.m. to 9:00 p.m. A single transaction by a dispensary is limited to three ounces of useable cannabis, one ounce of cannabis concentrate, and 72 ounces of medical cannabis products.

A medical cannabis transportation license will be provided with an approved grower, processor, or dispensary license allowing the licensee to legally transport medical cannabis from a licensed grower, licensed processor, or licensed dispensary to a licensed grower, licensed processor, licensed dispensary, or licensed researcher.

### *Company Licenses*

The Company holds a minority interest in an entity that holds four cultivation, five processing and seven dispensary licenses in the State of Oklahoma.

### **Compliance with Applicable State Law in the United States**

The Company is classified as having both a direct and indirect involvement in the U.S. cannabis industry and is in compliance with applicable licensing requirements and the regulatory framework enacted by each U.S. state in which it operates. The Company is not subject to any citations or notices of violation with applicable licensing requirements and the regulatory framework enacted by each applicable U.S. state which may have an impact on its licenses, business activities or operations.

The Company has in place a detailed compliance program, which oversees, maintains, and implements the compliance program and personnel. In addition to the Company's robust internal legal and compliance departments, the Company has state and local regulatory/compliance counsel engaged in every jurisdiction in which it operates.

The Company's compliance department oversees training for all employees, including on the following topics: (i) compliance with state and local laws; (ii) safe cannabis use; (iii) dispensing procedures; (iv) security and safety policies and procedures; (v) inventory control; (vi) quality control; and (vii) transportation procedures.

The Company monitors all compliance notifications from the regulators and inspectors in each market, timely resolving any issues identified. The Company keeps records of all compliance notifications received from the state regulators or inspectors and how and when the issue was resolved.

To ensure compliance with the U.S. federal laws and the regulatory framework enacted by each U.S. state in which the Company operates, the Company adheres to the following procedures and controls:

- The Company ensures the operations of its subsidiaries are compliant with all licensing requirements that are set forth by applicable state, county or municipal law by retaining appropriately experienced legal counsel;
- The Company ensures that its activities adhere to the scope of the licensing obtained; and
- The Company only works through licensed operators, which must pass a range of requirements, adhere to strict business practice standards and be subjected to strict regulatory oversight whereby sufficient checks and balances ensure that no revenue is distributed to criminal enterprises, gangs and cartels.

The Company will continue to monitor compliance on an ongoing basis in accordance with its compliance program and standard operating procedures. While the Company's operations are in full compliance with all applicable state laws, regulations and licensing requirements, such activities remain illegal under United States federal law. For the reasons described above and the risks further described under "*Risk Factors*" in this Prospectus, there are significant risks associated with the business of the Company. Readers are strongly encouraged to carefully read all of the risk factors described under "*Risk Factors*" in this Prospectus

### **Balance Sheet**

Until recently, the Company was only exposed to cannabis operations indirectly through its rental operations. With the Company's recent and pending acquisitions, a large majority of the Company's balance sheet and operating statement will become exposed to U.S. cannabis-related activities directly.

### **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, the Company's business is subject to all of the risks associated with having material 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 the Company in the future.

### **DIVIDENDS**

The Company has not declared distributions on Common Shares in the past. The Company currently intends to reinvest all future earnings to finance the development and growth of its business. As a result, the Company does not intend to pay dividends on Common Shares in the foreseeable future. Any future determination to pay distributions will be at the discretion of the Board of Directors and will depend on the financial condition, business environment, operating results, capital requirements, any contractual restrictions on the payment of distributions and any other factors that the Board of Directors deems relevant. The Company is not bound or limited in any way to pay dividends in the event that the Board of Directors determined that a dividend was in the best interest of its shareholders.

## CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at the dates indicated, both before and after the exercise of all of the CD Special Warrants and Broker Special Warrants, on the share and loan capital of the Company since March 31, 2019, the date of the Company's most recently filed financial statements. This table should be read in conjunction with the consolidated financial statements of the Company and the related notes and management's discussion and analysis of financial condition and results of operations in respect of those statements that are incorporated by reference in this Prospectus.

	As at March 31, 2019	As at March 31, 2019 after giving effect to the exercise of all CD Special Warrants and Broker Special Warrants
Share Capital (Common Shares – Authorized: 300,000,000) <sup>(1)</sup> .....	US\$47,757,379 23,597,815 Common Shares	US\$47,757,379 23,597,815 Common Shares
Long-term debt.....	US\$326,090	US\$326,090
Current portion of long-term debt	US\$1,677,823	US\$1,677,823
Short term notes and advances.....	US\$1,376,898	US\$1,376,898
Convertible notes.....	US\$1,253,278	US\$1,253,278
CD Special Warrants.....	4,083	Nil
Convertible Debentures.....	Nil	\$4,239,050 principal amount <sup>(2)</sup>
Warrants.....	Nil	706,829 <sup>(2)</sup>
Broker Special Warrants.....	58,030	Nil
Broker Warrants.....	Nil	58,030

**Notes:**

- (1) Excludes Common Shares issuable upon exercise of any convertible securities outstanding as at March 31, 2019.
- (2) After giving effect to the Penalty Units deemed to be exercised upon the conversion of 3,121 CD Special Warrants which were issued in the December Tranche.

## USE OF PROCEEDS

The estimated net proceeds of the Offering, after deducting the Agents' Commission of \$16,800 and the estimated expenses of the Offering of \$181,000, are \$764,200 (being approximately US\$580,000 based on the daily exchange rate for the United States dollar in terms of Canadian dollars, as quoted by the Bank of Canada on June 24, 2019). The net proceeds of the Offering were used for expansion purposes, as outlined below:

Project	Allocation of Net Proceeds
<b>Nevada</b> – Built out of dispensaries and cultivation and processing facilities	US\$180,000
<b>Oklahoma</b> – Built out of dispensaries	US\$400,000
<b>Total</b>	<b>US\$580,000</b>

The Company had negative operating cash flow in its most recent interim financial period and financial year. The Company's ability to generate positive operating cash flow will depend on a number of factors, including, among others, expansion activities and the Company's acquisition activities and capital expenditure requirements. To the extent the Company has negative cash flows in future periods, the Company may use a portion of its general working capital or seek additional equity or debt financing to fund such negative cash flows. See "Risk Factors".

The primary business objectives of the Company over the next twelve months are to: (i) build out dispensaries in Oklahoma and Nevada; (ii) build out cultivation facilities in Nevada; and (iii) identify accretive acquisition targets. Significant events that must occur for the business objectives to be accomplished are: (i) continue to recruit and



retain key personnel to support execution of growth and scale initiatives; and (ii) timely approval of applicable state regulatory agents in respect to the facilities that the Company leases to its tenants or has an indirect or direct interest.

## PLAN OF DISTRIBUTION

This prospectus is being filed in the provinces of Alberta, British Columbia and Ontario to qualify the distribution of \$962,000 of principal amount of Convertible Debentures and 160,654 Warrants issuable upon the deemed exercise of 962 CD Special Warrants.

On the Closing Date, the Company completed the Offering pursuant to prospectus exemptions under applicable securities legislation of an aggregate of 962 CD Special Warrants issued in the provinces of Alberta, British Columbia and Ontario (and in jurisdictions outstanding of Canada in compliance with laws applicable therein) on a private placement basis at a price of \$1,000 per CD Special Warrant, which was determined by arm's length negotiation between the Company and the Agent. On December 27, 2018, the Company also completed the December Tranche, consisting of an aggregate of 3,121 CD Special Warrants on the same terms as the Offering. Such CD Special Warrants are not being qualified by this prospectus.

Pursuant to the Agency Agreement, the Company has agreed to use commercially reasonable efforts to prepare and file this Prospectus under applicable securities laws in each of the Provinces of Canada, except Quebec, where the CD Special Warrants were sold, to use commercially reasonable efforts to satisfy all comments from the regulators in each applicable jurisdiction with respect to this Prospectus and to obtain a final receipt from the Ontario Securities Commission, as principal regulator, qualifying the distribution of the Special Warrants in the applicable jurisdictions by the Qualification Deadline.

The CD Special Warrants, Convertible Debentures and Warrants have not been and will not be registered under the U.S. Securities Act or the securities laws of any state and that the CD Special Warrants (and the Registrable Securities, as defined herein) may not be offered or sold, directly or indirectly, in the United States or to a U.S. Person without registration under the U.S. Securities Act and applicable state securities laws or compliance with the requirements of an exemption from such registration.

The Company covenanted with the Agent that the Company shall (i) use its commercially reasonable best efforts to prepare and file with the SEC within forty-five (45) calendar days after the Closing Date a registration statement (on Form S-3, S-1, or other appropriate registration statement form reasonably acceptable) under the U.S. Securities Act (the "**Registration Statement**"), at the sole expense of the Company, so as to permit a public offering and resale of the Convertible Debentures, Warrants, Warrant Shares, Debenture Shares, the Broker Warrants, the Agents' Commission Shares and Agents' Commission Warrants (the "**Registrable Securities**") in the United States under the U.S. Securities Act; and (ii) use commercially reasonable best efforts to cause a Registration Statement to be declared effective by the SEC as soon as possible and not later than the earlier of (a) one hundred and twenty (120) calendar days from the date of filing the Registration Statement in the event of a SEC review of the Registration Statement, and (b) the fifth trading day (day on which the CSE is open for quotation) following the date on which the Company is notified by the SEC that the Registration Statement will not be reviewed or is no longer subject to further review and comments.

If the Qualification Event has not occurred on or before the date that is 120 days following the applicable Qualification Deadline, each unexercised CD Special Warrant will thereafter entitle the holder to receive upon the exercise thereof, at no additional cost, 1.05 Penalty Units. This Prospectus also qualifies the distribution of any Penalty Units upon deemed exercise of the CD Special Warrants. Unless the context otherwise requires, all references herein to the "Offering", "Convertible Debenture Units", "Convertible Debentures", "Warrants" and Common Shares shall include any underlying securities comprising the Penalty Units that may be issued in connection with the Penalty Provision.

Pursuant to the Agency Agreement, the Company paid the Agents' Commission on the Closing Date to the Agents equal to 7.0% of the aggregate gross proceeds of the portion of the Offering for which the Agents were responsible. The Agents were also granted 5,600 Broker Special Warrants, equal to 7% of the aggregate gross proceeds of the portion of the Offering for which the Agents were responsible divided by the Conversion Price.

Each Broker Special Warrant is exercisable, on the same terms as the CD Special Warrants, for one Broker Warrant. Each Broker Warrant shall be exercisable to acquire one Compensation Unit at an exercise price of \$3.00 per Compensation Unit for twenty-four (24) months from the Closing Date. Each Compensation Unit will be comprised of one Agents' Commission Share and one-half of one Agents' Commission Warrant. Each whole Agents' Commission Warrant will entitle the holder thereof to acquire one Agents' Commission Warrant Share at an exercise price of \$3.90, until the date that is twenty-four (24) months following the Closing Date.

Pursuant to the Agency Agreement, the Company also: (i) paid the Lead Agent the Corporate Finance Fee; and (ii) issued the Corporate Finance Shares to the Lead Agent.

The Offering was determined by arm's length negotiation between the Company and the Agents. Other than the Agents' Commission, the Broker Special Warrants, the Corporate Finance Fee, the Corporate Finance Shares and the Agents' Expenses the Agents' have not and will not receive any other fee or commission from the Company in connection with the completion of the Offering or the deemed exercise of the CD Special Warrants.

The CD Special Warrants were issued in certificated form on the Closing Date. The Convertible Debentures and Warrants to be issued upon the deemed exercise of the CD Special Warrants will also be issued in certificated form. The Debenture Shares and Warrant Shares issuable upon the conversion or exercise of the Convertible Debentures and Warrants will be issued through a book-based system through CDS Clearing and Depository Services ("CDS").

Pursuant to the Agency Agreement, the Company has agreed, for a period of 120 days following the Closing Date, not to, directly or indirectly, offer, issue, sell, grant, secure, pledge, or otherwise transfer, dispose of or monetize, or engage in any hedging transaction, or enter into any form of agreement or arrangement the consequence of which is to alter economic exposure to, or announce any intention to do so, in any manner whatsoever, any Common Shares or securities convertible into, exchangeable for, or otherwise exercisable to acquire Common Shares or other equity securities of the Company, without the prior written consent of the Lead Agent (such consent not to be unreasonably withheld), other than in conjunction with (i) the grant of stock options and other similar issuances pursuant to the stock option plan of the Company and other share compensation arrangements, provided such options and other similar securities are granted or issued with an exercise price not less than the Conversion Price; (ii) the exercise of warrants or stock options outstanding as of October 10, 2018; (iii) the issuance of securities in connection with property or share acquisitions in the normal course of business; or (iv) the concurrent non-brokered offering of CD Special Warrants that forms part of the Offering.

Each of the executive officers and directors of the Company have entered into an undertaking in favour of the Agents pursuant to which such person shall agree not to, directly or indirectly, offer, issue, sell, grant, secure, pledge, or otherwise transfer, dispose of or monetize, or engage in any hedging transaction, or enter into any form of agreement or arrangement the consequence of which is to alter economic exposure to, or announce any intention to do so, in any manner whatsoever, any Common Shares or securities convertible into, exchangeable for, or otherwise exercisable to acquire Common Shares or other equity securities of the Company for a period of 120 days after the Closing Date, without the prior written consent of the Lead Agent.

Pursuant to the Agency Agreement, the Company has also agreed to indemnify the Agents, its respective subsidiaries and affiliates and their respective directors, officers, employees and partners against certain liabilities, including liabilities under Canadian securities legislation or to contribute to payments the Agent may have to make because of such liabilities.

The outstanding Common Shares are listed for trading on the CSE under the symbol "STEM" and are also listed on the OTCQB under the symbol "STMH". On March 13, 2019, the last trading day before the Closing Date, the closing price of the Common Shares on the CSE was \$1.70 per Common Share. On June 24, 2019, the last trading day before the date of this Prospectus, the closing price of the Common Shares on the CSE was \$1.84 per Common Share. The Company has made the required filings to the CSE to list the Common Shares, Debenture Shares, Warrant Shares and Agents' Commission Warrant Shares issued in connection with the Offering.

## DESCRIPTION OF SECURITIES BEING DISTRIBUTED

### Authorized Share Capital

The Company is authorized to issue 300,000,000 Common Shares, 50,000,000 shares of preferred stock, Series A and 50,000,000 shares of preferred stock, Class B (collectively, the “**Preferred Shares**”). As at the date of this Prospectus, there are 39,445,506 Common Shares and no Preferred Shares outstanding.

The rights and attributes of the Common Shares are, as follows:

### Common Shares

Right to Notice and Vote	Holders of Common Shares are entitled to notice of and to attend at any meeting of the shareholders of the Company. At each such meeting, holders of Common Shares are entitled to one vote in respect of each Common Share held.
Dividends	Holders of Common Shares are entitled to receive as and when declared by the directors of the Company, dividends in cash or property of the Company.
Participation	In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of Common Shares will have no special rights, no pre-emptive rights, and no conversion or exchange rights or any other rights with respect to such Common Shares.
Other Rights	Holders of Common Shares have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of Common Shares are subject to and may be adversely affected by the rights of holders of shares of any series of preferred shares that the Company may designate and issue in the future.

### CD Special Warrants

The CD Special Warrants are governed by the terms and conditions set forth in the Special Warrant Indenture, which provides for the creation of the CD Special Warrants and includes a form of certificate of the CD Special Warrants. An aggregate of 4,083 CD Special Warrants are outstanding as of the date of this Prospectus. The material terms and conditions of the CD Special Warrants are summarized below:

- each of the CD Special Warrants will automatically be exercised (without payment of further consideration and subject to customary anti-dilution adjustments) into one Convertible Debenture Unit on the date that is the earlier of: (i) the date that is three (3) business days following the date on which the Company has obtained both (A) a Receipt for the Qualification Prospectus, and (B) notification that the Registration Statement of the Company filed with the SEC has been declared effective by the SEC; and (ii) the date that is six-months following the Closing Date;
- If the Qualification Event has not occurred on or before the date that is 120 days following the applicable Qualification Deadline, each unexercised CD Special Warrant will thereafter entitle the holder to receive upon the exercise thereof, at no additional cost, a Penalty Unit;
- the Special Warrant Indenture provides for and contains provisions designed to keep the holders of the CD Special Warrants unaffected by the possible occurrence of certain corporate events, including the amalgamation, merger or corporate reorganization of the Company;
- the holders of CD Special Warrants do not have any right or interest whatsoever as shareholders of the Company, including but not limited to any right to vote at, to receive notice of, or to attend, any meeting of

shareholders or any other proceedings of the Company or any right to receive any dividend or other distribution;

- the rights of holders of CD Special Warrants may be modified by agreement between the Company and the holders of the CD Special Warrants. The Special Warrant Indenture provides for meeting by holders of CD Special Warrants and the passing of resolutions and extraordinary resolutions by such holders which are binding on all holders of CD Special Warrants. Certain amendments to the Special Warrant Indenture may only be made by “extraordinary resolution”, which is defined in the Special Warrant Indenture as a resolution passed by the affirmative vote of CD Special Warrant holders holding not less than 66<sup>2/3</sup>% of the aggregate number of CD Special Warrants represented at the meeting and voted on the poll on such resolution;
- Where a holder of CD Special Warrants is entitled to receive, as a result of the Penalty Provision or otherwise, on the exercise of its CD Special Warrants a fraction of the Underlying Security, being the Convertible Debentures (which, may be authorized in denominations of \$1) and Warrants underlying the Convertible Debenture Unit, such right may only be exercised in respect of such fraction in combination with another CD Special Warrant or other CD Special Warrants which in the aggregate entitle the holder of the CD Special Warrants to receive a whole number of Underlying Securities. No fractional Underlying Security will be issuable on the deemed exercise of any CD Special Warrants, and no cash or other consideration will be paid in lieu of fractional Underlying Securities. If a holder of CD Special Warrants is not able to, or elects not to, combine CD Special Warrants so as to be entitled to acquire a whole number of Underlying Securities, the holder of CD Special Warrants may not acquire a fractional Underlying Security on the exercise of such CD Special Warrants, and, as a result, has the right to acquire only that number of Underlying Securities equal to the next lowest whole number of Underlying Securities and no cash will be paid in lieu of any fractional Underlying Security.
- the Company has agreed to provide the holders of the CD Special Warrants a contractual right of rescission.

The foregoing is a summary description of certain material provisions of the Special Warrant Indenture, it does not purport to be a comprehensive summary and is qualified in its entirety by reference to the more detailed provisions of the Special Warrant Indenture between the Company and Olympia Trust Company, as Special Warrant Agent, a copy of which may be obtained on request without charge from the Company at its registered office or electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Convertible Debentures**

The following is a summary of the material attributes and characteristics of the Convertible Debentures. This summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the terms of the CD Indenture between the Company and Olympia Trust Company as debenture trustee, a copy of which may be obtained on request without charge from the Company at its registered office or electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

The Convertible Debentures will be issued under the CD Indenture upon the deemed exercise of the CD Special Warrants on the Automatic Exercise Date. The aggregate principal amount of Convertible Debentures authorized to be issued under the CD Indenture is \$12,075,000. The Convertible Debentures will be designated as “8.0% senior unsecured convertible debentures”. The Convertible Debentures will be dated as of the date of their issue.

Each Convertible Debenture will bear interest at the rate of 8.0% per annum (on the basis of a 360-day year composed of twelve 30-day months) from the date of issue, payable semi-annually in arrears on the last business day of December and June of each year, commencing on June 30, 2019.

Each Convertible Debenture will be convertible into Debenture Shares at the option of the holder at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the Maturity Date; and (ii) the last business day immediately preceding the date fixed for redemption in connection with a Change of Control of the Company (as defined herein).

For the purposes hereof, a “Change of Control” means (i) any event as a result of or following which any person, or group of persons “acting jointly or in concert” within the meaning of applicable Canadian securities laws, beneficially owns or exercises control or direction over an aggregate of more than 50% of the then outstanding Common Shares; or (ii) the sale or other transfer of all or substantially all of the consolidated assets of the Company. A “Change of Control” will not include a sale, merger, reorganization or other similar transaction if the previous holders of the Company’s Common Shares hold at least 50% of the voting shares of such merged, reorganized or other continuing entity

The Conversion Price in effect for each Debenture Share to be issued upon the conversion of the Convertible Debentures shall be equal to \$3.00, subject to adjustment in certain events. Holders converting their Convertible Debentures will receive accrued and unpaid interest thereon for the period from and including the date of conversion.

Upon a Change of Control of the Company, holders of the Convertible Debentures will have the right to require the Company to repurchase their Convertible Debentures, in whole or in part, on the date that is 30 days following the giving of notice of the change of control, at a price equal to 105% of the principal amount then outstanding plus accrued and unpaid interest thereon up to and including the date of redemption (the “**Offer Price**”). If 90% or more of the principal amount of the Convertible Debentures outstanding on the date of notice of the Change of Control have been tendered for redemption, the Company will have the right to redeem all of the remaining Convertible Debentures at the Offer Price.

The Convertible Debentures will be senior unsecured obligations of the Company and shall rank *pari passu* in right of payment of principal and interest with all other Convertible Debentures issued under the CD Indenture or other indentures supplemental to the CD Indenture and, except as prescribed by law, with all other existing and future unsecured indebtedness of the Company. The Convertible Debentures will be subordinate to any secured indebtedness, which includes the principal of, the premium (if any) and interest and other obligations on secured indebtedness, statutory liens (other than statutory liens where the party is defending same in good faith), secured bank or other institutional indebtedness, and secured project indebtedness, that is existing as of the date of the CD Indenture, in each case owing by the Company, or renewals, extensions and refunding of such indebtedness, including, without limitations: (i) statutory liens (ii) a mortgage, including any customary security instrument of the Company’s real property; (iii) the financing and the constructions of the Company’s facilities, where the lender’s secured interest (if any) in the Company’s assets is limited to the construction project being financed; (iv) capital leasing equipment for the operation of the Company’s business where the lessor’s secured interest (if any) in the Company’s assets is limited to the assets financed by the capital lease; and (v) all costs and expenses incurred by or on behalf of the holder of any secured indebtedness in enforcing payment or collection of any secured indebtedness, including enforcing any security interest securing the same.

The rights of the holders of the Convertible Debentures may be modified in accordance with the terms of the CD Indenture. For that purpose, among others, the CD Indenture contains certain provisions which will make extraordinary resolutions binding on all holders of Convertible Debentures. The CD Indenture also contains provisions dealing with events of default of the Company and other terms and conditions typical of an agreement of such nature.

## Debenture Shares

The Debenture Shares issuable pursuant to the exercise of the Convertible Debentures will have the same rights as the Common Shares. See “*Description of Securities Being Distributed – Common Shares*” for a description of the rights of holders of Common Shares

## Warrants

The Warrants are governed by the terms and conditions set forth in the Warrant Indenture between the Company and Olympia trust Company as Warrant Agent. The following is a summary of the material attributes and characteristics of the Warrants. This summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the terms of the Warrant Indenture, a copy of which may be obtained on request without charge from the Company at its registered office or electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

Each Warrant will entitle the holder thereof to acquire one Warrant Share at an exercise price of \$3.90 per Warrant Share, until the date that is twenty-four months following the Closing Date, subject to adjustment in certain events.

The Warrant Indenture provides for adjustment in the number of Warrant Shares issuable upon the exercise of the Warrants and/or the exercise price per Common Share upon the occurrence of certain events, including, but not limited to: (i) the subdivision, re-division or change of the outstanding Common Shares into a greater number of Common Shares; (ii) the reduction, combination or consolidation of the outstanding Common Shares into a smaller number of Common Shares; (iii) the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares by way of distribution stock dividend or other distribution (other than upon exercise of Warrants); and (iv) the fixing of a record date for the issuance of rights, options or warrants to all or substantially all the holders of the outstanding Common Shares entitling them, for a period expiring not more than 45 days after such record date, to subscribe for or purchase Common Shares (or securities convertible or exchangeable into Common Shares) at a price per Common Share (or having a conversion or exchange price per Common Share) less than 95% of the Current Market Price (as such term is defined in the Warrant Indenture) on such record date.

The Warrant Indenture also provides for adjustments in the class and/or number of securities issuable upon exercise of the Warrants and/or exercise price per security in the event of the following additional events: (i) reclassifications of the Common Shares or a capital reorganization other than as described above; (ii) consolidations, amalgamations, arrangements, or mergers of the Company with or into another body corporate, trust partnership or other entity; or (iii) the sale or conveyance of the property and assets of the Company as an entirety or substantially as on entirety to any other body corporate, trust, partnership or other entity.

Notwithstanding the foregoing, no adjustment shall be made in the acquisition rights attached to the Warrants if the issue of Common Shares is being made pursuant to the Warrant Indenture or in connection with: (i) any share incentive plan or restricted share plan or share purchase plan in force from time to time for directors, officers, employees, consultants or other service providers of the Company; or (ii) the satisfaction of existing instruments issued at the Closing Date.

The Company has agreed that, so long as any Warrant remains outstanding, it will give notice to the Warrant Agent and to the holders of Warrants of its intention to fix a record date that is prior to the expiry date of the Warrants for any matter for which an adjustment may be required pursuant to the Warrant Indenture. Such notice shall specify the particulars of such event and the record date for such event, provided that the Company shall only be required to specify in the notice such particulars of the event as shall have been fixed and determined on the date on which the notice is given. The notice shall be given in each case not less than 14 days prior to such applicable record date. If notice has been given and the adjustment is not then determinable, the Company shall promptly, after the adjustment is determinable, file with the Warrant Agent a computation of the adjustment and give notice to the holders of Warrants of such adjustment computation.

The Company is not required, upon the exercise of any Warrants, to issue fractions of Warrant Shares. Warrants may only be exercised in a sufficient number to acquire whole numbers of Warrant Shares. Any fractional Warrant

Shares shall be rounded down to the nearest whole number and the holder of such Warrants shall not be entitled to any compensation in respect of any fractional Warrant Share which is not issued.

From time to time, the Company and the Warrant Agent may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Warrants may only be made by “extraordinary resolution”, which is defined in the Warrant Indenture as a resolution proposed at a meeting of holders of Warrants duly convened for that purpose and held in accordance with the provisions of the Warrant Indenture at which there are present in person or by proxy holders of Warrants holding at least 10% of the aggregate number of all then outstanding Warrants and passed by the affirmative votes of holders of Warrants holding not less than 66<sup>2/3</sup>% of the aggregate number of all then outstanding Warrants represented at the meeting and voted on the poll upon such resolution. A quorum for such meeting shall consist of holders of Warrants present in person or by proxy and holding at least 10% of the aggregate number of all the then outstanding Warrants.

### Warrant Shares

The Warrant Shares issuable pursuant to the exercise of the Warrants will have the same rights as the Common Shares. See “*Description of Securities Being Distributed – Common Shares*” for a description of the rights of holders of Common Shares.

### PRIOR SALES

The following table sets forth the details regarding all issuances of Common Shares, including issuances of all securities convertible or exchangeable into Common Shares, during the 12-month period before the date of this Prospectus.

<u>Date of issuance</u>	<u>Security</u>	<u>Issue/Exercise price per security</u>	<u>Number of securities</u>
July 1, 2018 .....	Warrants	US\$2.40	20,833 <sup>(26)</sup>
July 6, 2018 .....	Common Shares	US\$2.40	16,667
September 1, 2018 .....	Options	US\$4.00	250,000 <sup>(26)</sup>
September 1, 2018 .....	Warrants	US\$2.50	114,300 <sup>(26)</sup>
September 15, 2018 .....	Options	US\$2.40	300,000 <sup>(26)</sup>
September 26, 2018 .....	Common Shares	US\$1.99	12,500 <sup>(1)</sup>
October 1, 2018 .....	Options	US\$1.80	75,000 <sup>(26)</sup>
October 1, 2018 .....	Warrants	US\$2.40	50,000 <sup>(26)</sup>
October 5, 2018 .....	Common Shares	US\$2.40	350,000 <sup>(2)</sup>
October 17, 2018 .....	Common Shares	US\$2.40	15,662 <sup>(3)</sup>
October 30, 2018 .....	Common Shares	US\$2.00	250,000 <sup>(4)</sup>
October 31, 2018 .....	Common Shares	US\$2.00	194,233 <sup>(5)</sup>
November 1, 2018 .....	Common Shares	US\$2.14	457,191 <sup>(6)</sup>
November 2, 2018 .....	Common Shares	US\$2.40	187,500 <sup>(7)</sup>
November 5, 2018 .....	Common Shares	US\$1.80	958,335 <sup>(8)</sup>
December 7, 2018 .....	Common Shares	US\$1.80	75,000 <sup>(9)</sup>
December 27, 2018 .....	CD Special	\$1,000	3,121

Warrants			
December 27, 2018.....	Common Shares	\$3.00	16,666 <sup>(10)</sup>
December 27, 2018.....	Broker Warrants	\$3.00	52,430
January 21, 2019 .....	Common Shares	US\$2.00	68,209 <sup>(11)</sup>
February 7, 2019 .....	Common Shares	US\$2.40	225,000 <sup>(12)</sup>
March 3, 2019.....	Warrants	US\$3.00	1,000,000
March 14, 2019.....	CD Special Warrants	\$1,000	962
March 14, 2019.....	Broker Warrants	\$3.00	5,600
March 18, 2019.....	Common Shares	US\$1.80	4,787 <sup>(13)</sup>
March 18, 2019 .....	Common Shares	US\$1.73	14,451 <sup>(14)</sup>
March 25, 2019 .....	Common Shares	US\$1.70	100,000 <sup>(15)</sup>
March 25, 2019 .....	Common Shares	US\$2.39	75,000 <sup>(16)</sup>
March 25, 2019 .....	Common Shares	US\$1.70	5,882 <sup>(17)</sup>
March 29, 2019.....	Common Shares	\$2.20	8,250,000 <sup>(18)</sup>
April 1, 2019 .....	Common Shares	US\$1.80	22,223 <sup>(19)</sup>
April 1, 2019 .....	Options	US\$2.40	35,000 <sup>(26)</sup>
April 12, 2019.....	Common Shares	\$2.48	2,000,000 <sup>(21)</sup>
April 29, 2019.....	Common Shares	US\$1.90	12,500,000 <sup>(22)</sup>
May 1, 2019 .....	Common Shares	US\$1.55	2,492,266 <sup>(23)</sup>
May 20, 2019 .....	Common Shares	US\$1.70	339,706 <sup>(24)</sup>
May 30, 2019 .....	Common Shares	US\$1.72	150,000 <sup>(25)</sup>
June 1, 2019 .....	Options	US\$1.40	100,000 <sup>(26)</sup>
June 4, 2019 .....	Common Shares	US\$1.40	50,000 <sup>(20)</sup>
June 17, 2019 .....	Common Shares	US\$1.61	300,000 <sup>(27)</sup>
June 21, 2019 .....	Common Shares	US\$1.40	75,000 <sup>(28)</sup>



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**Notes:**

- (1) Common Shares issued pursuant to a settlement agreement at a deemed price of US\$1.99 per Common Share.
- (2) Common Shares issued on or around October 5, 2018 pursuant to consulting agreements with certain consultants at a deemed value of US\$2.40 per Common Share.
- (3) Common Shares issued pursuant to the exercise of stock options at a price of US\$2.40 per Common Share.
- (4) Common Shares issued for services pursuant to consulting agreement at a deemed price of US\$2.00 per Common Share.
- (5) Common Shares issued as officer compensation.
- (6) Common Shares issued as a deposit for acquisition at a deemed value of US\$2.14 per Common Share.
- (7) Common Shares issued as a deposit on November 2, 2018 in connection with the YMY Acquisition.
- (8) Common Shares issued pursuant to debt conversion made at a deemed value of US\$1.80 on or around November 5, 2018.
- (9) Common Shares issued for services pursuant to a consulting agreement at a deemed price of US\$1.80 per Common Share.
- (10) Pursuant to the Agency Agreement, the Company issued the Lead Agent the Corporate Finance Shares. See "*Plan of Distribution*".
- (11) Common Shares issued as officer compensation in January and February of 2019.
- (12) Common Shares issued for consulting services provided to the Company in February and March of 2019 at a deemed value of US\$2.40 per Common Share.
- (13) Common Shares issued to an employee of Stem pursuant to the employment agreement at a deemed price of US\$1.80 per Common Share.
- (14) Common Shares issued to an employee of Stem pursuant to an employment agreement at a deemed price of US\$1.73.
- (15) Common Shares issued for consulting services provided to the Company at a deemed price of US\$1.70.
- (16) Common Shares issued for advisory board engagement provided to the Company at a deemed price of US\$2.39 per Common Share.
- (17) Common Shares issued as part of bonus paid to a Company employee.
- (18) Common Shares issued as share consideration in respect of the acquisition of SAV, of which a portion of the Common Shares remain held in escrow. See "*Description of the Business – Recent Developments*".
- (19) Common Shares issued to employees of Stem pursuant to their respective employment agreements, with each Common Share being issued at a deemed price of US\$1.80.
- (20) Common Shares issued to an employee of the Company pursuant to a 2018 employment agreement at a deemed price of US\$1.40 per Common Share.
- (21) Common Shares issued as share consideration in respect of the acquisition of WCV. See "*Description of the Business – Recent Developments*".
- (22) Common Shares issued as share consideration in respect of the Reorganization. Such share consideration is being held in escrow until the closing of the Reorganization. See "*Description of the Business – Recent Developments*".
- (23) Common Shares issued as a deposit in respect of the Yerba Buena Acquisition. Does not reflect the 1,931,506 Common Shares that were issued as a deposit on October 31, 2018, and which were returned to treasury in connection with the reissuance of the 2,492,266 Common Shares noted above.
- (24) Common Shares issued for consulting services provided to the Company at a deemed price of US\$1.70 per Common Share.
- (25) Common Shares issued for consulting services provided to the Company at a deemed price of US\$1.72 per Common Share.
- (26) Exercisable into such number of Common Shares.
- (27) Common Shares issued for consulting services provided to the Company at a deemed price of US\$1.61 per Common Share.
- (28) Common Shares issued for consulting services provided to the Company at a deemed price of US\$1.40 per Common Share.

## TRADING PRICE AND VOLUME

The Common Shares are listed on the CSE under the trading symbol “STEM”.

The following table sets out trading information for the Common Shares on the CSE from July 13, 2018 up to the last trading day before the date of this Prospectus.

Period	High Trading Price	Low Trading Price	Volume (#)
July 13, 2018 – July 31, 2018	\$0	\$0	0
August 2018	\$4.48	\$4.00	14,670
September 2018	\$3.75	\$2.20	27,866
October 2018	\$3.05	\$2.52	50,190
November 2018	\$3.09	\$2.75	30,974
December 2018	\$2.90	\$2.67	24,970
January 2019	\$3.58	\$2.08	403,330
February 2019	\$3.24	\$2.28	169,337
March 2019	\$2.54	\$2.20	156,419
April 2019	\$2.88	\$2.25	162,080
May 2019	\$2.60	\$1.90	45,508
June 1 - 24, 2019	\$2.20	\$1.83	100,109

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Dentons Canada LLP, counsel to the Company, and DLA Piper (Canada) LLP, counsel to the Agent, the following is at the date of this Prospectus a summary of the principal Canadian federal income tax considerations under the Income Tax Act (Canada) and the regulations thereto (the “**Tax Act**”) generally applicable to an investor who (i) acquires Convertible Debentures and Warrants upon the deemed exercise of the CD Special Warrants, Debenture Shares upon conversion of the Convertible Debentures, and Warrant Shares upon exercise of the Warrants; (ii) for purposes of the Tax Act and at all relevant times, holds such securities as capital property; (iii) for purposes of the Tax Act and at all relevant times, deals at arm’s length with and is not affiliated with the Company or the Agent; (iv) is not exempt from tax under the Tax Act; and (v) is resident in Canada for purposes of the Tax Act. A person who meets all of the foregoing requirements is referred to as a “**Holder**” in this summary, and this summary only addresses such Holders. CD Special Warrants, Convertible Debentures, Warrants, Debenture Shares and Warrant Shares (collectively, the “**Securities**”) will generally be considered to be capital property to a Holder unless the Holder holds such Securities in the course of carrying on a business of buying and selling securities or has acquired them in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to a Holder: (i) with respect to whom the Company is or will be a “foreign affiliate” within the meaning of the Tax Act, (ii) that is a “financial institution” for the purposes of the mark-to-market rules under the Tax Act, (iii) an interest in which is a “tax shelter” or a “tax shelter investment” as defined in the Tax Act, (iv) that is a “specified financial institution” as defined in the Tax Act, (v) who has made a “functional currency” reporting election under section 261 of the Tax Act to report the holder’s “Canadian tax results” (as defined in the Tax Act) in a currency other than the Canadian currency or (vi) that has entered or will enter into a “derivative forward agreement” (as defined in the Tax Act) with respect to the Securities. **Any such Holder should consult its own tax advisor with respect to the income tax considerations applicable to it in respect of acquiring, holding and disposing of the Securities.**

This summary is based on the current provisions of the Tax Act and an understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the “**CRA**”) made public prior to the

date hereof. This summary takes into account all proposed amendments to the Tax Act that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, which is referred to as the “Proposed Amendments,” and assumes that such Proposed Amendments will be enacted in the form proposed, although no assurance can be given that the Proposed Amendments will be enacted in their current form or at all.

Except for the Proposed Amendments, this summary does not take into account or anticipate any other changes in law or any changes in the CRA’s administrative policies and assessing practices, whether by judicial, governmental or legislative action or decision, nor does it take into account other Canadian federal or any provincial, territorial or foreign tax legislation or considerations, which may differ from the Canadian federal income tax considerations described herein. The provisions of provincial income tax legislation vary from province to province in Canada and in some cases differ from the Tax Act.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations with respect to the income tax considerations applicable to any particular Holder are made. This summary is not exhaustive of all Canadian federal income tax considerations. The relevant tax considerations applicable to the acquiring, holding and disposing of the Securities may vary according to the status of the investor, the jurisdiction in which the investor resides or carries on business and the investor’s own particular circumstances. **Accordingly, prospective Holders are urged to consult their own tax advisors about the specific tax consequences to them of investing in, holding, exercising and/or disposing of any of the Securities.**

### **Currency Conversion**

For purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of Securities (including interest, dividends, adjusted cost base and proceeds of disposition) must generally be expressed in Canadian dollars. Amounts denominated in any other currency must be converted into Canadian dollars generally based on the exchange rate quoted by the Bank of Canada on the date such amounts arise or such other rate of exchange as is acceptable to the Minister of National Revenue (Canada).

### **Exercise of Special Warrants**

No gain or loss should be realized by the Holder on the exercise of the CD Special Warrants. Convertible Debentures and Warrants acquired by a Holder on the exercise of Special Warrants will have a cost to the Holder for purposes of the Tax Act equal to the adjusted cost base to the Holder of the CD Special Warrants so exercised. The cost of Convertible Debentures and Warrants so acquired will be averaged with the adjusted cost base to the Holder of any other Convertible Debentures and Warrants held at the time as capital property for the purpose of determining the adjusted cost base of Convertible Debentures and Warrants to the Holder.

### **Taxation of Interest on Convertible Debentures**

A Holder of Convertible Debentures that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Convertible Debentures (i) that accrues or that is deemed to accrue to it to the end of the particular taxation year, or (ii) that has become receivable by or is received by the Holder before the end of that taxation year, including on conversion, redemption or maturity of the Convertible Debentures, except to the extent that such interest was included in computing the Holder’s income for a preceding taxation year.

Any other Holder (including an individual, other than certain trusts) will be required to include in computing income for a taxation year all interest on the Convertible Debentures that is received or receivable by the Holder in that taxation year (depending upon the method regularly followed by the Holder in computing income), except to the extent that the interest was included in the Holder’s income for a preceding taxation year. In addition, if a Convertible Debenture constitutes an “investment contract” (as defined in the Tax Act) in relation to a Holder, such Holder would be required to include in computing income for a taxation year any interest that accrues to the Holder on the Convertible Debenture up to the end of any “anniversary day” (as defined in the Tax Act) in that year to the extent such interest was not otherwise included in the Holder’s income for that year or a preceding taxation year.

A Holder that is throughout the year a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional tax (refundable in certain circumstances) on certain investment income, including interest income.

### **Exercise of the Conversion Privilege**

A Holder of Convertible Debentures (and Warrants) that converts a Convertible Debenture (or Warrants) into Debenture Shares or Debenture Shares and cash in lieu of a fraction of a Debenture Share (or Warrant Shares or Warrant Shares and cash in lieu of a fraction of a Warrant Share) pursuant to the conversion privilege and only receives Debenture Shares (or Warrant Shares) upon such conversion will be deemed not to have disposed of the Convertible Debenture (or Warrant), and accordingly, will not be considered to realize a capital gain (or capital loss) on such conversion.

Under the current administrative practice of the CRA, a Holder who, upon conversion of a Convertible Debenture (or Warrant), receives cash not in excess of \$200 in lieu of a fraction of a Debenture Share (or Warrant Share) may either treat this amount as proceeds of disposition of a portion of the Convertible Debenture (or Warrant), thereby realizing a capital gain (or a capital loss), or reduce the adjusted cost base of the Debenture Shares (or Warrant Shares) that the Holder receives upon conversion by the amount of the cash received. The aggregate cost to a Holder of the Debenture Shares (or Warrant Shares) acquired upon exercise of such holder’s right to convert a Convertible Debenture (or Warrant) generally should be equal to the aggregate of the adjusted cost base to the Holder of the Convertible Debenture (or Warrant) immediately before the conversion, minus any reduction of adjusted cost base for cash received in lieu of fractional shares as discussed above. Generally, the adjusted cost base to a Holder of Debenture Shares (and Warrant Shares) at any time should be determined by averaging the cost of such Debenture Shares (or Warrant Shares) with the adjusted cost base of any other Debenture Shares (or Warrant Shares) owned by the Holder as capital property at such time.

Upon conversion of a Convertible Debenture, interest thereon should be included in computing the income of the Holder as described above under “*Taxation of Interest on Debentures*”.

### **Other Disposition of Convertible Debentures and Warrants**

A disposition or deemed disposition of a Convertible Debenture or Warrant by a Holder, including a redemption, payment on maturity or purchase for cancellation (but not including by the conversion of a Debenture into Debenture Shares or the exercise of a Warrant into Warrant Shares) pursuant to the Holder’s conversion or exercise privilege as described above), generally should result in the Holder realizing a capital gain (or, subject to certain rules in the Tax Act, a capital loss) equal to the amount by which the proceeds of disposition, net of any amount otherwise required to be included in the Holder’s income as interest, in the case of Convertible Debentures, exceed (or are less than) the aggregate of the adjusted cost base to the Holder thereof and any reasonable costs of disposition. Such capital gain (or capital loss) should be subject to the tax treatment described below under “*Taxation of Capital Gains and Capital Losses*”.

Upon a disposition or deemed disposition of a Convertible Debenture, interest thereon should be included in computing the income of the Holder to the extent that such interest has not otherwise been included in computing the Holder’s income as described above under “*Taxation of Interest on Debentures*”, and should be excluded in computing the Holder’s proceeds of disposition of the Convertible Debenture.

### **Disposition of Common Shares**

A disposition or a deemed disposition of a Common Share by a Holder (except to the Company) will generally result in the Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share exceeds (or are less than) the aggregate of the adjusted cost base to the Holder thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under “*Taxation of Capital Gains and Capital Losses*”.

## **Taxation of Capital Gains and Capital Losses**

Generally, one-half of any capital gain (a “**taxable capital gain**”) realized by a Holder in a taxation year must be included in the Holder’s income for the year, and one-half of any capital loss (an “**allowable capital loss**”) realized by a Holder in a taxation year must be deducted from taxable capital gains realized by the Holder in that year. Allowable capital losses in excess of taxable capital gains realized in a taxation year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of dividends received or deemed to be received by it (if any) on such Common Share (or on a share for which the Common Share has been substituted) to the extent and under the circumstances prescribed by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares, directly or indirectly, through a partnership or a trust.

A Holder that is, throughout the relevant taxation year, a “Canadian-controlled private corporation”, as defined in the Tax Act, may also be liable to pay a special tax (refundable in certain circumstances) on certain investment income, including taxable capital gains.

Capital gains realized by an individual (and certain trusts) may give rise to liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act. Holders should consult their own tax advisors in this regard.

## **Receipts of Dividends on Common Shares**

Dividends received or deemed to be received on Common Shares held by a Holder will be included in the Holder's income for the purposes of the Tax Act.

## **Foreign Property Information Reporting.**

In general, a Holder that is a “specified Canadian entity” (as defined in the Tax Act) for a taxation year or fiscal period and whose total “cost amount” of all “specified foreign property” (as defined in the Tax Act) at any time in the taxation year or fiscal period exceeds \$100,000 is required to file an information return for the year or fiscal period disclosing prescribed information in respect of such property. Subject to certain exceptions, a Holder will generally be a specified Canadian entity. The Securities will be a specified foreign property to a Holder. Accordingly, Holders should consult their own tax advisors regarding compliance with these rules.

## **RISK FACTORS**

An investment in the securities of the Company is speculative and subject to risks and uncertainties. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the value of any investment in the Company and the business, prospects, financial position, financial condition or results of operations of the Company.

The risks and uncertainties described or incorporated by reference in this Prospectus are not the only ones the Company may face. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems not to be material, may also become important factors that affect the Company. If any such risks actually occur, the Company’s business, prospects, financial position, financial condition or results of operations could be materially adversely affected, with the result that the trading price of the Common Shares could decline and purchasers could lose all or part of their investment.

Investors should carefully review and consider all the information described in this Prospectus, including the documents incorporated herein by reference, and in particular should give special consideration to the risk factors under the section titled “*Risk Factors*” in the AIF and the information contained in the section entitled “*Cautionary Statement Regarding Forward-Looking Information*” above.

## **Risks Related to the Legality of Cannabis**

### *Cannabis is a Schedule I Controlled Substance*

The Company is involved in the cannabis industry in the United States where only state law permits such activities. Investors are cautioned that in the United States, cannabis is largely regulated at the state level. To the Company's knowledge, some form of cannabis has been legalized in 33 states and Washington, D.C. as of the date hereof. Additional states have pending legislation regarding the same. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a controlled substance under the CSA and as such, cultivation, distribution, sale and possession of cannabis violates federal law in the United States.

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 U.S. 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 in the United States, the listing of its securities on the CSE, its financial position, operating results, profitability or liquidity or the market price of its publicly traded 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.

### *Federal Regulation of Cannabis in the United States*

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the "**Cole Memorandum**") addressed to all United States district attorneys acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several states had enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined the priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice never provided specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

In 2017, then newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit. However, in 2018, Mr. Sessions issued a new memorandum that rescinded and superseded the Cole Memorandum (the "**Sessions Memorandum**"). The Sessions Memorandum stated, in part, that current law reflects "Congress' determination that cannabis is a dangerous drug and cannabis activity is a serious crime", and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by Congress and to follow well-established principles when pursuing prosecutions related to cannabis activities as set out in chapter 9-27.000 of the U.S. Attorneys' Manual. The inconsistency between federal and state laws and regulations is a major risk to the Company's business.

As a result of the Sessions Memorandum, federal prosecutors are now free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. However, the Cole Memorandum's principles remain well respected, and the federal government under Sessions' tenure prosecuted no state law compliant entities. Sessions resigned in late 2018. The new Attorney General William Barr testified in his confirmation hearing that he will not upset "settled

expectations”, “investments”, or other “reliance interest[s]” arising as a result of the Cole Memo, and that he does not intend to use federal resources to enforce federal cannabis laws in states that have legalized cannabis “to the extent people are complying with the state laws.”

Medical cannabis is currently further protected against enforcement by enacted legislation from United States Congress in the form of the Joyce Amendment (previously the Rohrabacher Amendment), Consolidated Appropriations Act, 2019, Pub. L. No. 116-6, § 537 (the “**Joyce Amendment**”), which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding. If such funding were ever restored, actions which were previously protected could be subject to prosecution if they are within the statute of limitations.

Due to the dual sovereign nature of American government, the federal government can assert criminal violations of federal law despite state law. There have not been publicized instances of any state-legal cannabis operations being prosecuted absent claims that the operation is also violating state law. Nonetheless, the level of prosecutions of state-legal cannabis operations is entirely unknown, and the current administration is hostile to legal cannabis. If the Department of Justice policy under Attorney General William Barr were to change course and aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Company could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, (ii) the arrest of its employees, directors, officers, managers and investors, and charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis; and/or (iii) barring employees, directors, officers, managers and investors who are not U.S. citizens from entry into the United States for life.

The Department of Justice under the current administration or an aggressive federal prosecutor could allege that the Company and its Board of Directors and, potentially its shareholders, “aided and abetted” violations of federal law by providing finances and services to its portfolio cannabis companies. Under these circumstances, it is possible that the federal prosecutor would seek to seize the assets of the Company, and to recover the “illicit profits” previously distributed to shareholders resulting from any of the foregoing financing or services. In these circumstances, the Company’s operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.

The Joyce Amendment was most recently extended through a Continuing Resolutions until September 30, 2019. Should the Joyce Amendment not be renewed upon expiration in subsequent spending bills there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with state law. Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company’s business, revenues, operating results and financial condition as well as the Company’s reputation, even if such proceedings were concluded successfully in favour of the Company.

Additionally, there can be no assurance as to the position any new administration may take on cannabis and a new administration could decide to enforce the federal laws strongly. Any enforcement of current federal laws could cause significant financial damage to the Company and its shareholders. Further, future presidential administrations may want to treat cannabis differently and potentially enforce the federal laws more aggressively.

Violations of any 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, its holding (directly or indirectly) of cannabis licenses in the United States, 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 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.

On June 7, 2018, the STATES Act was introduced in the Senate. A companion bill was introduced in the House of Representatives. The bill provides in relevant part that the provisions of the CSA, as applied to cannabis, “shall not apply to any person acting in compliance with state law relating to the manufacture, production, possession, distribution, dispensation, administration, or delivery of marihuana.” Even though cannabis will remain on Schedule I under the STATES Act, it makes the CSA unenforceable to the extent it conflicts with state law. In essence, the bill extends the limitations afforded by the Joyce Amendment within the federal budget to both adult-use and medical-use cannabis activity in all states where it has been legalized. By allowing continued prohibition to be a choice by the individual states, the STATES Act does not fully legalize cannabis on a national level.

#### *Joyce Amendment*

The Joyce Amendment, as discussed above, prohibits the Department of Justice from spending funds appropriated by Congress to enforce the tenets of the CSA against the medical cannabis industry in states which have legalized such activity. This amendment has historically been passed as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. The Joyce Amendment will expire with the Fiscal Year 2019 on September 30, 2019. At such time, it is expected to be included in the Fiscal Year 2020 omnibus appropriations package or a continuing budget resolution, but its inclusion or non-inclusion, as applicable, is subject to political changes.

#### *Risk of Legal, Regulatory or Political Change*

The success of the business strategy of the Company depends on the legality of the cannabis industry. Delays in enactment of new state or U.S. federal regulations could restrict the ability of the Company to reach strategic growth targets. The growth strategy of the Company is contingent upon certain U.S. federal and state regulations being enacted to facilitate the legalization of medical and adult-use cannabis. If such regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of the Company, and thus, the effect on the return of investor capital, could be detrimental. The Company is unable to predict with certainty when and how the outcome of these complex regulatory and legislative proceedings will affect its business and growth.

Further, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Company’s business, results of operations, financial condition and prospects would be materially adversely affected. It is also important to note that local and city ordinances may strictly limit and/or restrict disbursement of cannabis in a manner that will make it extremely difficult or impossible to transact business that is necessary for the continued operation of the cannabis industry. U.S. federal actions against individuals or entities engaged in the cannabis industry or a repeal of applicable cannabis related legislation could adversely affect the Company and its business, results of operations, financial condition and prospects.

The Company is also aware that multiple states are considering special taxes or fees on businesses in the cannabis industry. It is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. Should such special taxes or fees be adopted, this could have a material adverse effect upon the Company’s business, results of operations, financial condition or prospects.

Overall, the medical and adult-use cannabis industry is subject to significant regulatory change at both the state and federal level. The inability of the Company to respond to the changing regulatory landscape may cause it to not be successful in capturing significant market share and could otherwise harm its business, results of operations, financial condition or prospects.



### *Intellectual Property Risks*

The Company's ability to compete in the future partly depends on the superiority, uniqueness and value of its intellectual property and technology, including both internally developed technology and technology licensed from third parties. To the extent the Company is able to do so, in order to protect its proprietary rights, the Company will rely on a combination of trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions which may prove insufficient to protect the Company's proprietary rights.

Third parties may independently develop substantially equivalent proprietary information without infringing upon any proprietary technology. Third parties may otherwise gain access to the Company's proprietary information and adopt it in a competitive manner. Any loss of intellectual property protection may have a material adverse effect on the Company's business, results of operations or prospects.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain U.S. federal laws and protections which may be available to most businesses, such as U.S. federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third-parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level. While many states do offer the ability to protect trademarks independent of the U.S. federal government, patent protection is wholly unavailable on a state level, and state-registered trademarks provide a lower degree of protection than would federally-registered marks.

### *Lack of Access to United States Bankruptcy Protections*

Because the use of cannabis is illegal under U.S. federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to the Company's United States operations, which would have a material adverse effect on the Company, its lenders and other stakeholders.

### *Enforceability of Contracts*

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at a U.S. federal level, judges in multiple U.S. states have on a number of occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate U.S. federal law, even if there is no violation of state law. There remains doubt and uncertainty that the Company will be able to legally enforce contracts it enters into if necessary. The Company cannot be assured that it will have a remedy for breach of contract, the lack of which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.

### *Market for Cannabis Could Decline due to Regulatory Changes*

There can be no assurance that the number of states that allow the use of medicinal cannabis will increase. Furthermore, there can be no assurance that the existing states and districts that permit the use of medicinal cannabis will not reverse their position. If either of these things happens at any future time, then growth of the Company's business may be materially impacted. The Company may not be able to achieve targeted revenue levels and may experience declining revenue as the potential market for its products and services diminishes.

## **General Legal Risks**

### *Anti-Money Laundering Laws and Regulations*

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime. These include: (i) the *Bank Secrecy Act*, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001; (ii) sections 1956 and 1957 of U.S.C. Title 18 ; (iii) the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)*, as amended and the rules and regulations thereunder; (iv) the *Criminal Code (Canada)*; and (v) any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its Common Shares in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

### *Certain Remedies may be Limited*

The Company's governing documents may provide that the liability of the Board of Directors and the officers of the Company is eliminated to the fullest extent permitted under the laws of the State of Nevada. Thus, the Company and the shareholders of the Company may be prevented from recovering damages for alleged errors or omissions made by the members of the Board of Directors and the officers of the Company. The Company's governing documents may also provide that the Company will, to the fullest extent permitted by law, indemnify members of the Board of Directors and its officers for certain liabilities incurred by them by virtue of their acts on behalf of the Company.

### *Difficulty in Enforcing Judgments and Effecting Service of Process on Directors and Officers*

The majority of the directors and officers of the Company reside outside of Canada. Some or all of the assets of such persons may be located outside of Canada. Therefore, it may not be possible for Company Shareholders to collect or to enforce judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities laws against such persons. Moreover, it may not be possible for Company Shareholders to effect service of process within Canada upon such persons.

## **General Regulatory Risks**

### *Heightened Scrutiny by Regulatory Authorities*

The Company's existing investments in the United States, and any future operations or investments of the Company, may become the subject of heightened scrutiny by regulators, stock exchanges 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 operate or invest in the United States or any other jurisdiction, in addition to those described herein.

Relatedly, it has been reported by certain publications in Canada that CDS, Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets, is considering a policy shift whereby CDS would refuse to settle trades for cannabis issuers that have investments in the United States. The TMX

Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (“MOU”) with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The MOU outlines the parties’ understanding of Canada’s regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented at a time when the Common Shares are listed on a stock exchange, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of securities through the facilities of the applicable stock exchange.

#### *Regulatory Proceedings, Investigations and Audits*

The Company’s investments may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate their respective businesses. In addition, the Company’s investments may not be able to comply fully with the wide variety of laws and regulations applicable to the cannabis industry. Failure to comply with or to obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on an investment’s ability to operate in the cannabis industry, which could have a material adverse effect on the Company’s business. Failure to comply with these laws and regulations could also subject the Company to a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company’s reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require the Company to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management’s attention and resources or have a material adverse impact on the Company’s business, financial condition and results of operation.

#### *Regulatory Action from the Food and Drug Administration*

The Company’s investments or its tenants sell certain cannabis-based products in the certain states where such products are legal. However, such cannabis-based products are not approved by the Food and Drug Administration (“FDA”) as “drugs” or for the diagnosis, cure, mitigation, treatment, or prevention of any disease. Accordingly, the FDA may regard any promotion of the cannabis-based products as the promotion of an unapproved drug in violation of the Food, Drug and Cosmetic Act (“FDCA”).

In recent years, the FDA has issued letters to a number of companies selling products that contain CBD oil derived from hemp warning them that the marketing of their products violates the FDCA. FDA enforcement action against the Company, its investee entities or its tenants could result in a number of negative consequences, including fines, disgorgement of profits, recalls or seizures of products, or a partial or total suspension of the Company’s production or distribution of its products. Any such event could have a material adverse effect on the Company’s business, prospects, financial condition, and operating results.

#### *Product Recalls*

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls cause

unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. This can cause loss of a significant amount of sales. In addition, a product recall may require significant management attention. If one of the products being sold by the Company's investee entities or tenants were subject to recall, the image of that product and the Company could be harmed. Additionally, product recalls can lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

## **Tax Risks**

### *Unfavorable Tax Treatment of Cannabis Businesses*

Under Section 280E of the United States Internal Revenue Code of 1986 as amended, "no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the CSA) which is prohibited by U.S. federal law or the law of any state in which such trade or business is conducted." This provision has been applied by the Internal Revenue Service to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its U.S. income tax expenses.

## **Market and Economic Risks**

### *Global Financial Conditions*

Following the onset of the credit crisis in 2007-2008, global financial conditions were characterized by extreme volatility and several major financial institutions either went into bankruptcy or were rescued by governmental authorities. While global financial conditions subsequently stabilized, there remains considerable risk in the system given the extraordinary measures adopted by government authorities to achieve that stability. Global financial conditions could suddenly and rapidly destabilize in response to future economic shocks, as government authorities may have limited resources to respond to future crises.

Future economic shocks may be precipitated by a number of causes, including a rise in the price of oil, geopolitical instability and natural disasters. Any sudden or rapid destabilization of global economic conditions could impact the Company's ability to obtain equity or debt financing in the future on terms favourable to the Company. Additionally, any such occurrence could cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. Further, in such an event, the Company's operations and financial condition could be adversely impacted.

Furthermore, general market, political and economic conditions, including, for example, inflation, interest and currency exchange rates, structural changes in the cannabis industry, supply and demand for commodities, political developments, legislative or regulatory changes, social or labour unrest and stock market trends will affect the Company's operating environment and its operating costs, profit margins and share price. Any negative events in the global economy could have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

### *Currency Fluctuations*

Due to the Company's present operations in the United States, the Company is expected to be exposed to significant currency fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. The Company does not have currency hedging arrangements in place. Fluctuations in the exchange rate between the United States dollar and the Canadian dollar, may have a material adverse effect on the Company's business, financial position or results of operations.

### *Volatile Market Price of the Common Shares*

The market price of the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control. This volatility may affect the ability of holders of Common Shares to sell their securities at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Common Shares.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be materially adversely effected.

### *Risk Factors Related to Dilution*

The Company may issue additional securities in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of up to 300,000,000 Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Company's stock option plan and upon the exercise of outstanding warrants.

### *Limited Market for Securities*

There is no market through which the CD Special Warrants, Convertible Debentures or Warrants may be sold and purchasers may not be able to resell the CD Special Warrants, Convertible Debentures or Warrants acquired pursuant to the Offering. This may affect the pricing of the CD Special Warrants, Convertible Debentures or Warrants in the secondary market, the transparency and availability of trading prices, the liquidity and the extent of issuer regulation. An investment in the CD Special Warrants, the Convertible Debentures, Warrants and Common Shares should only be made by those persons who can afford the loss of their entire investment.

There can be no assurance that an active and liquid market for the Common Shares will develop and shareholders may find it difficult to resell their Common Shares. Accordingly, no assurance can be given that the Company or its business will be successful.

## **Financing Risks**

### *Securing Additional Financing*

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company will require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may also contain provisions which, if breached, may entitle lenders or their agents to accelerate repayment of loans and/or realize upon security over the assets of the Company, and there is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing. The Company will require additional financing to fund its operations until positive cash flow is achieved.

### *Restricted Access to Banking*

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the *Currency and Foreign Transactions Reporting Act of 1970*, the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)*, the *Criminal Code (Canada)* and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In February 2014, the Financial Crimes Enforcement Network (“**FinCEN**”) bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis businesses, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the Department of Justice, FinCEN or other U.S. federal regulators. Thus, most banks and other financial institutions in the United States do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Company may have limited or no access to banking or other financial services in the United States. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned or to operate efficiently.

## **Environmental Risks**

### *Environmental Regulation*

The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors (or the equivalent thereof) and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are currently, and may in the future, be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company's investee companies may be curtailed or prohibited from its proposed production of medical cannabis or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of medical cannabis, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

#### *Unknown Environmental Risks*

There can be no assurance that the Company will not encounter hazardous conditions at the site of the real estate used to operate its businesses, such as asbestos or lead, in excess of expectations that may delay the development of its businesses. Upon encountering a hazardous condition, work at the facilities of the Company may be suspended. If the Company receives notice of a hazardous condition, it may be required to correct the condition prior to continuing construction. The presence of other hazardous conditions will likely delay construction and may require significant expenditure of the Company's resources to correct the condition. Such conditions could have a material impact on the investment returns of the Company.

#### **Risks Related to Management, Employees and Suppliers**

##### *Reliance on Key Personnel*

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management (collectively, "**Key Personnel**"). The Company's future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. The loss of the services of a Key Person, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. In addition, if a Key Person leaves the Company, and the Company is unable to find a suitable replacement in a timely manner, or at all, there could occur a material adverse effect on the Company's business, financial condition and results of operations. While employment agreements are customarily used as a primary method of retaining the services of Key Personnel, these agreements cannot assure the continued services of such employees.

### *Potential Conflict of Interest*

There are potential conflicts of interest to which some of the directors, officers and insiders of the Company may be subject in connection with the operations of the Company. Some of the individuals appointed as directors of the Company are also directors and/or officers of other issuers. As of the date hereof, and to the knowledge of the directors and officers of the Company, there are no existing conflicts of interest between the Company and any of the Company's director who act as directors or officers of other issuers, however, situations may arise where the directors and/or officers of the Company may be in competition with the Company.

### *Independence of the Board of Directors*

Several members of the Board of Directors are not considered independent within the meaning set forth in National Instrument 52-110 – *Audit Committees*. Failure to maintain a Board of Directors that is not majority independent could jeopardize the effectiveness and the proper functioning of the Board of Directors.

### *Difficulty Attracting and Retaining Personnel*

The Company's success depends to a significant degree upon its ability to attract, retain and motivate highly skilled and qualified personnel. Failure to attract and retain necessary technical personnel, sales and marketing personnel and skilled management could adversely effect the Company's business. If the Company fails to attract, train and retain sufficient numbers of these highly qualified people, its prospects, business, financial condition and results of operations will be materially and adversely effected.

### *Dependence on Suppliers*

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure plans may be significantly greater than anticipated by the Company's management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the business, financial condition, results of operations or prospects of the Company.

### *Reliance on Inputs*

The cannabis business is dependent on a number of key inputs and their related costs including raw materials and supplies related to growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, results of operations or prospects of the Company. In addition, any restrictions on the ability to secure required supplies or utility services or to do so on commercially acceptable terms could have a materially adverse impact on the business, financial condition and operating results. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of the Company.

### *Service Providers*

As a result of any adverse change to the approach in enforcement of United States cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of cannabis or otherwise, third party service providers to the Company could suspend or withdraw their services, which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.



### *Fraudulent or Illegal Activity by Employees, Contractors and Consultants*

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal, state and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

### **General Business Risks**

#### *Discretion over the Use of Proceeds*

The Company will have discretion concerning the use of the net proceeds of the Offering as well as the timing of their expenditures, and may apply the net proceeds of the Offering in ways other than as described under "Use of Proceeds" in this Prospectus. As a result, an investor will be relying on the judgment of the Company for the application of the net proceeds of the Offering. The Company may use the net proceeds of the Offering in ways that an investor may not consider desirable. The results and the effectiveness of the application of the net proceeds are uncertain. If the net proceeds are not applied effectively, the Company's business, prospects, financial position, financial condition or results of operations may suffer.

#### *Limited Operating History and Generated Revenues*

The Company was founded in 2016 and has limited operating history from which to evaluate the Company's business prospects. The Company has accrued accumulated net losses from the date of inception and faces 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 products and services, and the ability to attract and retain qualified personnel. There can be no guarantees that the Company will be successful in managing these risks, and if the Company is unsuccessful in doing so, the Company's shareholders face the risk of losing their entire investment.

#### *Negative Operating Cash Flow*

The Company had negative operating cash flow in its most recent interim financial period and financial year. The Company's ability to generate positive operating cash flow will depend on a number of factors, including, among others, receipt and/or maintenance by the Company and its subsidiaries of required permits to operate the Company's business. To the extent the Company has negative cash flows in future periods, the Company may use a portion of its general working capital or seek additional equity financing to fund such negative cash flows. There is no assurance that additional capital or other types of financing will be available if needed or that these financings will be on terms at least as favourable to the Company as those previously obtained, or at all.

#### *Difficulty to Forecast*

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the adult-use cannabis industry in the states in which the Company's business will operate. A failure in the demand for its products to materialize as a result of competition,

technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

#### *Management of Growth*

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

#### *Internal Controls*

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of the Common Shares.

#### *Insurance Coverage*

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability. Although the Company intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

#### *Unfavorable Publicity or Consumer Perception*

The Company believes the adult-use and medical cannabis industries are highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. In particular, the Company's financial performance in each state will depend on whether patients and physicians view its products as effective and safe for use. Under the laws of the states in which the Company and its affiliates operate, the participation of physicians and health care providers in the certification process is voluntary and therefore depends on a number of variables, including: medical professionals' views as to the use of medical cannabis to treat qualifying conditions; the risks and benefits to individual patients or patient groups; the policies of particular medical practices; and patient demand. If physicians and other medical professionals do not certify patients where certification is required under state law, the Company's business, financial position and results of operations may be negatively affected.

Public perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other

publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or other publicity could have a material adverse effect on the demand for adult-use or medical cannabis and on the business, results of operations, financial condition, cash flows or prospects of the Company.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of adult-use and medical cannabis with illness or other negative effects or events, could have such a material adverse effect. There is no assurance that such adverse publicity reports or other media attention will not arise. A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use 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, results of operations or prospects.

#### *Results of Future Clinical Research*

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as cannabidiol (“**CBD**”) and tetrahydrocannabinol (“**THC**”)) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although the Company believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, investors should not place undue reliance on such articles and reports. Future research studies and clinical trials may reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition, results of operations or prospects.

#### *Competition*

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

#### *Increased Costs of being a Public Company*

As a reporting issuer, the Company is subject to the reporting requirements and rules and regulations under the applicable Canadian securities laws and rules of any stock exchange on which the Company's securities may be listed from time to time. Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase the Company's legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on its personnel, systems and resources, which could adversely affect its business, financial condition, and results of operations.

#### *Future Acquisitions or Dispositions*

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of the Company's ongoing business; (ii) distraction of management; (iii) the Company may become more financially leveraged; (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected; (v) increasing the scope and complexity of the Company's operations; and (vi) loss or reduction of control over certain of the Company's assets. Additionally, the Company

may issue additional securities in connection with such transactions, which would dilute a shareholder's holdings in the Company.

The presence of one or more material liabilities of an acquired company that are unknown to the Company at the time of acquisition could have a material adverse effect on the business, results of operations, prospects and financial condition of the Company. A strategic transaction may result in a significant change in the nature of the Company's business, operations and strategy. In addition, the Company may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Company's operations.

The Company's previously announced acquisitions and transactions, including the Reorganization, may be completed on different terms and conditions than were previously contemplated or may not be completed at all. Failure to close such acquisitions may lead to a material adverse effect on the Company's business, financial condition, results of operations or prospects.

#### *Co-Investment Risk*

The Company may co-invest in one or more investments with certain strategic investors and/or other third parties through joint ventures or other entities, which parties in certain cases may have different interests or superior rights to those of the Company. Additionally, the Company's investments may be subject to typical risks associated with third-party involvement, including the possibility that a third-party may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of the Company, or may be in a position to take (or block) action in a manner contrary to the Company's objectives. The Company may also, in certain circumstances, be liable for the actions of its third-party partners or co-investors. Co-investments by third parties may or may not be on substantially the same terms and conditions as the Company, and such different terms may be disadvantageous to the Company.

### **ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS**

The Company, the following directors and/or officers and the auditors of the Company reside outside of Canada. Such persons named below have appointed the following agent for service of process:

<b>Name</b>	<b>Name and Address of Agents for Service</b>
Stem Holdings, Inc.	Dentons Canada LLP, Suite 400, 77 King Street West, Toronto, Ontario M5K 0A1
Adam Berk	Dentons Canada LLP, Suite 400, 77 King Street West, Toronto, Ontario M5K 0A1
Steve Hubbard	Dentons Canada LLP, Suite 400, 77 King Street West, Toronto, Ontario M5K 0A1
Garrett M. Bender	Dentons Canada LLP, Suite 400, 77 King Street West, Toronto, Ontario M5K 0A1
Lindy Snider	Dentons Canada LLP, Suite 400, 77 King Street West, Toronto, Ontario M5K 0A1
Jessica Feingold	Dentons Canada LLP, Suite 400, 77 King Street West, Toronto, Ontario M5K 0A1
L J Solding Associates, LLC	Dentons Canada LLP, Suite 400, 77 King Street West, Toronto, Ontario M5K 0A1

Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person that resides outside of Canada, even if the party has appointed an agent for service of process.

## **AUDITORS, TRANSFER AGENT AND REGISTRAR**

L J Soldinger Associates, LLC are the auditors of the Company and have confirmed that, as of the date hereof, they are independent with respect to the Company within the meaning of the United States Securities Act of 1933 and the applicable rules and regulations thereunder adopted by the SEC and *the Public Company Accounting Oversight Board* (United States).

The co-transfer agents and co-registrar for the Common Shares are Corporate Stock Transfer at its principal offices in Colorado, United States and National Issuer Services Ltd. at its principal offices in Vancouver, British Columbia.

## **LEGAL MATTERS**

Certain legal matters in connection with this Offering will be passed upon by Dentons Canada LLP, on behalf of the Company, and by DLA Piper (Canada) LLP, on behalf of the Underwriters. As at the date hereof, the partners and associates of Dentons Canada LLP, as a group and the partners and associates of DLA Piper (Canada) LLP, as a group, each beneficially own, directly or indirectly, less than one percent of the outstanding Common Shares of the Company.

## **PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Pursuant to the terms of the Agency Agreement and the subscription agreements between the Company and the purchasers of CD Special Warrants, the Company has granted to each holder of a CD Special Warrant a contractual right of rescission of the private placement transaction pursuant to which the CD Special Warrants were initially acquired. The contractual right of rescission provides that if a holder of a CD Special Warrant who acquires Convertible Debenture Units on the exercise or deemed exercise of the CD Special Warrant as provided for in this Prospectus is, or becomes, entitled under the securities legislation of a jurisdiction to the remedy of rescission because of this prospectus or an amendment to this prospectus containing a misrepresentation,

- (a) The holder is entitled to rescission of both the holder's exercise or deemed exercise of its CD Special Warrant and the private placement transaction under which the CD Special Warrant was initially acquired, and
- (b) The holder is entitled in connection with the rescission to a full refund of all consideration paid to the Company on the acquisition of the CD Special Warrant.

The contractual rights of action described above are in addition to and without derogation from any other right or remedy that a purchaser of CD Special Warrants may have at law.

**CERTIFICATE OF THE COMPANY**

Dated: June 25, 2019

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Alberta, British Columbia and Ontario.

(Signed) "*Adam Berk*"  
Chief Executive Officer

(Signed) "*Steve Hubbard*"  
Chief Financial Officer

On Behalf of the Board of Directors

(Signed) "*Lindy Snider*"  
Director

(Signed) "*Jessica Michelle Feingold*"  
Director

**CERTIFICATE OF THE AGENTS**

Dated: June 25, 2019

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Alberta, British Columbia and Ontario.

**CANACCORD GENUITY CORP.**

By: (Signed) "*Frank Sullivan*"  
Vice President, Sponsorship, Investment Banking

**BEACON SECURITIES LIMITED**

By: (Signed) "*Mario Maruzzo*"  
Managing Director, Investment Banking