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

Form 10-K

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

For the fiscal year ended September 30, 2021

Or

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

For the transition period from ___________ to ___________

Commission file number: 000-55751

STEM HOLDINGS, INC.
(Exact name of registrant as specified in charter)

Nevada	61-1794883
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2201 NW Corporate Blvd., Suite 205
Boca Raton, FL 33431
(Address of principal executive offices) (Zip Code)

Registrant's telephone Number: (561) 948-5410

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of exchange on which registered
Common Stock par value $0.001	STMH	OTCQX

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-accelerated Filer ☒	Smaller Reporting Company ☒
	Emerging Growth Company ☒

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. $112,532,221 at $0.649 per share.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 223,452,741 shares of common stock par value $0.001 as of January 6, 2022.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

TABLE OF CONTENTS

PART I

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

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

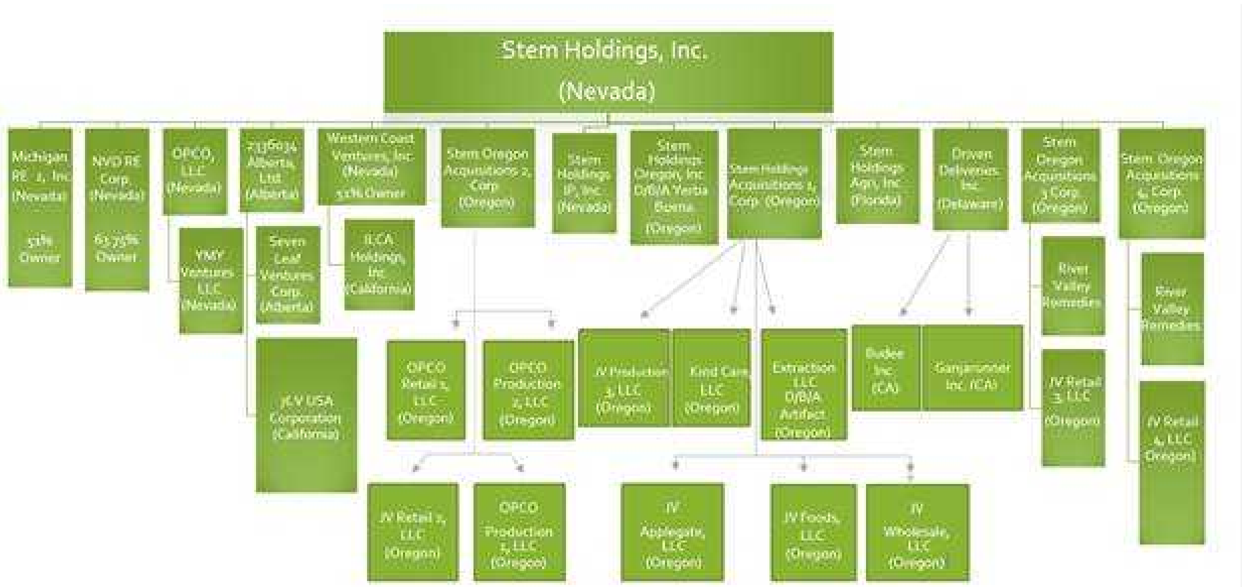
The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to publicly update any forward-looking statements, whether as the result of new information, future events, or otherwise.

ITEM 1. DESCRIPTION OF BUSINESS.

Corporate Structure

Stem Holdings, Inc. was organized on June 7, 2016, as a Nevada corporation under Chapter 78 of the Nevada Revised Statutes. The Company’s principal office is located at 2201 NW Corporate Blvd, Suite 205, Boca Raton, FL 33431.

The following chart illustrates the Companies corporate structure including details of the jurisdiction of formation of each subsidiary. Stem, through its subsidiaries, is currently in the process of finalizing the investment in and acquisition of entities that engage directly in the production and sale of cannabis.



Overview of the Business

Stem is a multi-state, vertically integrated, cannabis company that, through its subsidiaries and its investments, is engaged in the manufacture, possession, use, sale, distribution or branding of cannabis and/or holds licenses in the adult use and/or medical cannabis marketplace in the states of Oregon, Nevada, California, and Massachusetts. Stem has ownership interests in 29 state issued cannabis licenses including nine (9) licenses for cannabis cultivation, three (3) licenses for cannabis processing, two (2) licenses for cannabis wholesale distribution, three (3) licenses for hemp production, five (5) adult-use medical retailers (non-storefront) which were subsequently divested and seven (7) cannabis dispensary licenses.

The Company is also currently working towards acquiring one additional entity and assisting certain joint ventures with obtaining licenses and permits for cannabis production, distribution and sale in additional US states. Should it be successful in these endeavors, the Company will transform into a multi-state, vertically integrated, cannabis company that purchases, improves, leases, operates and invests in properties for use in the production, distribution and sales of cannabis and cannabis-infused products licensed under the laws of the states of Oregon, Nevada, California, and Colorado.

Stem's partner consumer brands are award-winning, nationally known and include: cultivators, TJ's Gardens, Travis X James, and Yerba Buena; retail brands, Stem and TJ's; infused product manufacturers, Cannavore and Supernatural Honey; and a CBD company, Dose-ology. As of September 30, 2021, the Company owns five properties and leases eight other properties, located in Oregon, Nevada and California. As of September 30, 2021, the buildout of these properties to support cannabis related operations was either complete or near completion.

The Company has ten wholly-owned subsidiaries, including Driven Deliveries, Inc. (subsequently divested on December 17, 2021), Stem Holdings Oregon, Inc., Stem Holdings IP, Inc., Opco, LLC, Stem Agri, Inc., Stem Holdings Oregon Acquisitions 1, Corp., Stem Holdings Oregon Acquisitions 2, Corp., Stem Holdings Oregon Acquisitions 3, Corp., Stem Holdings Oregon Acquisitions 4 Corp., 2336034 Alberta Ltd., Stem, through its subsidiaries, is currently in the process of finalizing the investment in and acquisition of entities that engage directly in the production and sale of cannabis.

The Company's stock is publicly traded and is listed on the Canadian Securities Exchange under the symbol "STEM" and the OTCQX exchange under the symbol "STMH".

Recent Developments

COVID-19

On March 12, 2020, the World Health Organization ("WHO") declared a global pandemic as a result of the spread of a virus known as COVID-19. The impacts on global commerce are expected to be far reaching. This has largely limited the Company's workforce from travelling to its various state specific jurisdictions. This will likely impact demand for the Company's products in the near term and will also likely impact the Company's supply chains. It may also impact expected credit losses on trade receivables and may cause staffing shortages and increased government regulations or interventions, which may negatively impact the financial condition or results of the Company. The Company has taken effective steps to ensure frequent sanitization, social distancing, and abstention from duty for employees with illnesses.

As of the date of this report, the Company has experienced minimal disruptions in staffing and one of the Company's facilities have been forced to close for a shortened period of time. The Company experienced significant retail revenue growth during 2021 despite this crisis. Overall demand in Oregon has been consistent through the date of this report and the Company expects that, without further restrictions from the government, its Oregon business will continue to remain open and service its customers. To date the Company has proven to be compliant with the Governors Guidelines and the updated OSHA requirements in response to COVID-19.

Oregon is utilizing a 4-tiered risk level rubric, based on hospitalizations and percent increase in 7-day positive test rates. The levels are Lower Risk, Moderate Risk, High Risk, and Extreme Risk. As of the date of this report, 1 of the companies 5 dispensaries are located in counties with a "High Risk" rating. This will not affect the Company's retail stores and the Company does not anticipate a significant impact in demand due to these ratings; however, the existence of more widespread cases of COVID-19 generally increases the risk of infection at a Company facility which could require downtime resulting in lost revenue, supply chain disruptions, testing and sanitization costs, and other potential unforeseen liabilities.

The Company has to date demonstrated resilience in managing its business through the pandemic by taking all recommended safety precautions including personal protective equipment, sanitization, working from home when possible and periodic testing. The Company also demonstrated strength by increasing headcount in its retail stores at the beginning of the pandemic rather than trimming headcount and shutting down stores. This decision significantly contributed to the Company's growth and success in its Oregon business during the first half of 2021.

Industrial Hemp

Industrial hemp is now legal in the U.S., which advocates hope could eventually loosen laws around the popular marijuana extract CBD.

The 2018 farm bill which legalized hemp including a variety of cannabis that does not produce the psychoactive component of marijuana, paved the way to legitimacy for an agricultural sector that has been operating on the fringe of the law. Industrial hemp has made investors and executives swoon because of the potential multibillion-dollar market for cannabidiol, or CBD, a non-psychoactive compound that has started to turn up in beverages, health products and pet snacks, among other products.

Currently, it appears that CBD will remain largely off-limits for ingestible products. The Food and Drug Administration issued a statement saying that despite the new status of hemp, CBD is still considered a drug ingredient and remains illegal to add to food or health products without the agency's approval, disappointing many hemp advocates, who said they will continue to work to convince the FDA to loosen its CBD rules. The FDA said some hemp ingredients, such as hulled hemp seeds, hemp seed protein and hemp seed oil, are safe in food and won't require additional approvals.

The farm bill places industrial hemp, which is defined as a cannabis plant with under 0.3% of tetrahydrocannabinol, or THC, under the supervision of the Agriculture Department and removes CBD from the purview of the Controlled Substances Act, which covers marijuana. The law also "explicitly" preserved the Food and Drug Administration's authority to regulate products containing cannabis, or cannabis-derived compounds.

Regulation of Cannabis in the United States Federally

The cultivation, production, distribution and sale of cannabis and cannabis extracts is illegal under U.S. federal law, and it is listed as a Schedule I substance under the U.S. Controlled Substances Act. A Schedule I drug or substance is deemed to have a high potential for abuse, to have no accepted medical use in the United States, and to lack an acceptable safe use of the drug under medical supervision. The Company believes the U.S. Controlled Substances Act categorization as a Schedule I drug is not reflective of cannabis' medicinal properties and numerous related studies support rescheduling. Over the past decade, cannabis policy has been moving towards legalization and liberalization of cannabis laws.

In September 2018, Congress approved the Medical Cannabis Research Act. This bill requires the Department of Justice to issue additional cultivation licenses to grow marijuana for federal research. The bill also clarifies that Department of Veterans Affairs ("VA") doctors can discuss medical marijuana with their patients and can refer them to participate in scientific studies on the drug's effects.

The District of Columbia ("D.C.") and 36 U.S. states, including the states of Oregon, Nevada and California, have legalized cannabis for medical use. D.C. and 15 U.S. states, including the states of Oregon, Nevada and California, have also legalized adult recreational use of cannabis.

As discussed above, marijuana remains a Schedule I substance under U.S. federal law. However, the Treasury Department's Financial Crimes Enforcement Network ("FinCEN") has issued guidance advising prosecutors of money laundering and other financial crimes not to focus their enforcement efforts on banks that serve marijuana-related businesses ("MRBs"), so long as that business is legal in the bank's respective state and none of the federal enforcement priorities are being violated (such as keeping marijuana away from children and out of the hands of organized crime). This guidance was published on February 14, 2014 and requires banks providing such services to monitor strict compliance with FinCEN's guidance. This requires investment in monitoring and compliance staff, and large national banks don't appear to want to make such an investment, nor expose themselves to potential risk of prosecution from non-compliant businesses they might serve. At the end of 2020 FinCEN reported 684 banks and financial institutions doing business with MRB's.

The few credit unions who have agreed to service marijuana businesses are limiting those accounts to no more than 5% of their total deposits to avoid creating a liquidity risk. Because the federal government could change the banking laws as it relates to marijuana businesses at any time and without notice, these credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from marijuana businesses in a single day, while also servicing the needs of their other customers.

In March 2019, a congressional committee approved the Secure and Fair Enforcement (SAFE) Banking Act. Draft legislation of the SAFE Banking Act received a historic hearing in the House Consumer Protection and Financial Institutions Subcommittee in February 2019, where the National Cannabis Industry Association submitted written testimony along with the personal stories about the burdens and safety concerns created by the current banking situation from nearly 100 cannabis industry professionals. On September 25, 2019 the U.S House of Representatives passed the landmark legislation to reform federal cannabis laws and reduce the public safety risk in communities across the country. H.R. 1595, the SAFE Banking Act of 2019 passed by a vote of 321 to 103. This bill generally prohibits a federal banking regulator from penalizing a depository institution for providing banking services to a legitimate marijuana-related business. The Company believes this progressive banking reform for the U.S. cannabis industry reflects a positive trajectory for marijuana banking reform.

The Marijuana Opportunity Reinvestment and Expungement Act, also known as the MORE Act, is a proposed 2019 United States federal legislation to legalize cannabis and expunge prior cannabis related convictions that was introduced into the U.S. House of Representatives on July 23, 2019. This would remove cannabis from the Controlled Substances Act and impose a 5% tax on cannabis and cannabis products manufactured in or imported into the United States. This tax will be collected by the Treasury of the United States to create a trust fund to be known as the Opportunity Trust Fund. The trust funds the Act would create include the Community Reinvestment Grant, which would provide funding for services such as job training, re-entry services and legal aid; the Cannabis Opportunity Grant, which would provide funds to assist small businesses in the cannabis industry; and the Equitable Licensing Grant, which minimizes barriers to gain access to marijuana licensing and employment for those most impacted by the so-called war on drugs. The act would also establish a Cannabis Justice Office within the Department of Justice Office of Justice Programs, responsible for administering the grants. On December 4, 2020, the U.S. House of Representatives passed this legislation by a vote of 228-164.

Both the MORE and SAFE Banking Acts have yet to receive action in the U.S. Senate. However, in late 2020 incoming Senate Majority Leader Charles Schumer made multiple comments suggesting that passage of these bills and large-scale federal legalization of cannabis are on his agenda. The Company continues to monitor both of these bills and the general status of cannabis legalization at the U.S. federal level.

On December 14, 2020, former President Trump announced that William Barr would be resigning from his post as Attorney General, effective December 23, 2020. Merrick Garland, President Biden's nominee to succeed Mr. Barr, has served as the current attorney since March 2021. It is unclear what specific impact the new Biden administration will have on U.S. federal government enforcement policy. 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 cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law.

The Company believes it is too soon to determine if any prosecutorial policy at the federal level will be forthcoming or if the Biden administration will reinstitute the prior posture of the Department of Justice or a similar guidance document for United States attorneys or by executive order. The sheer size of the cannabis industry, in addition to various level of legalization at the State and local governments, suggests that a largescale enforcement operation would possibly create unwanted political backlash for the Department of Justice. Moreover, State and local tax revenues generated by the cannabis business has become an increasingly important source of funding for State and local government programs.

Regulation of the Cannabis Market at State and Local Levels

The following chart sets out, for each of the subsidiaries and other entities through which the Company conducts is operations, the U.S. state(s) in which it operates, the nature of its operations (adult-use/medicinal), whether such activities carried on are direct, indirect or ancillary in nature (as such terms are defined in Staff Notice 51-352), the number of sales, cultivation and other licenses held by such entity and whether such entity has any operational cultivation or processing facilities.

State	Entities	Adult-Use / Medical	Direct / Indirect / Ancillary	Dispensary Licenses	Cultivation / Processing / Distribution Licenses
California	7LV USA	Medical	Direct (1)	1	N/A
Massachusetts	CGP	Adult-Use	Indirect(2)	1	
Nevada	YMY	Both	Indirect(3)	N/A	4
Oregon	Various	Both	Direct and Ancillary(4)	5	5

Notes:

(1) The Company's wholly-owned subsidiary, 7LV USA, operates a cannabis dispensary in Sacramento, California.

(2) The Company holds a 13% interest in CGP, which operates a cannabis dispensary in Great Barrington, Massachusetts. CGP is also building a cannabis facility in Northampton, Massachusetts.

(3) The Company holds a 50% interest in YMY, which operates a cannabis facility in North Las Vegas, Nevada.

(4) The Company holds all licenses in Oregon directly, through wholly-owned subsidiaries.

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.

California License Types

Once an operator obtains local approval, the operator must obtain state licenses before conducting any commercial cannabis activity. There are 12 different license types that cover all commercial activity. License types 1-3 and 5 authorize the cultivation of medical and/or adult use cannabis plants. Type 4 licenses are for nurseries that cultivate and sell clones and "teens" (immature cannabis plants that have established roots but require further vegetation prior to being sent into the flowering period). Type 6 and 7 licenses authorize manufacturers to process cannabis biomass into certain value-added products such as shatter or cannabis distillate oil with the use of volatile or non-volatile solvents, depending on the license type. Type 8 licenses are held by testing facilities who test samples of cannabis products and generate "certificates of analysis," which include important information regarding the potency of products and whether products have passed or failed certain threshold tests for pesticide and microbiological contamination. Type 9 licenses are issued to "non-storefront" retailers, commonly called delivery services, who bring cannabis products directly to customers and patients at their residences or other chosen deliver location. Type 10 licenses are known as "Transport-Only" distribution licenses, and they allow the distributor to transport cannabis and cannabis products between licensees, but not to retailers. Type 12 licenses are issued to distributors who move cannabis and cannabis products to all license types, including retailers.

Company Licenses

On March 29, 2019, the Company executed a definitive agreement to acquire Western Coast Ventures, Inc. ("**WCV**"), an arm's length private corporation incorporated under the laws of Nevada. Other than approximately $2,000,000 in cash, WCV's sole asset was a 51% ownership interest in ILCA. ILCA was issued a limited conditional use permit for a cannabis production facility by the City of San Diego. Upon issuance of the final cannabis production facility permit and the completed construction of the facility, the ILCA 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. During the year ended September 30, 2021 the Company determined the investment in ILCA was impaired and recognized an impairment expense of $2.2 million for the year ended September 30, 2021.

On March 6, 2020, the Company closed the acquisition of Seven Leaf Ventures Corp. ("**7LV**"), an arm's length private corporation incorporated under the laws of Alberta, and its subsidiaries, pursuant to the terms of a share purchase agreement dated March 6, 2020. A subsidiary of 7LV, 7LV USA, owns Foothills Health and Wellness, a medical dispensary, in the greater Sacramento, California area.

The table below lists the licenses directly and indirectly held by the Company in the State of California:

Holding Entity	Permit/License	City, State	Expiration Date	Description
7LV USA	C10-0000679-LIC	Sacramento, California	January 14, 2023	Medicinal Retailer License

California Agencies Regulating the Commercial Cannabis Industry

From 2015 through July 2021, three agencies were tasked with regulating the cannabis industry in California. The California Department of Food and Agriculture ("**CDFA**") which oversaw nurseries and cultivators; the California Department of Public Health ("**CDPH**") which oversaw manufacturers, and the Bureau of Cannabis Control (BCC) which oversaw distributors, retailers, delivery services and testing laboratories.

In an effort to centralize and simplify regulatory and licensing oversight of the cannabis market, Gov. Gavin Newsom signed AB-141 into law on July 12, 2021, creating the Department of Cannabis Control (DCC). Assembly Bill 141 consolidates three state cannabis programs – the Bureau of Cannabis Control (BCC), the California Department of Food and Agriculture's (CDFA) CalCannabis Cultivation Licensing Division, and the California Department of Public Health's (CDPH) Manufactured Cannabis Safety Branch into the DCC. The law transfers to the DCC all of the "powers, duties, purposes, functions, responsibilities, and jurisdiction" of the BCC, CDFA and CDPH.

California Transportation

Transporting cannabis goods between licensees and a licensed facility may only be performed by persons holding a distributor license. The vehicle or trailer used must not contain any markings or features on the exterior which may indicate or identify the contents or purpose. All cannabis products must be locked in a box, container, or cage that is secured to the inside of the vehicle or trailer. When left unattended, vehicles must be locked and secured. At a minimum, the vehicle must be equipped with an alarm system, motion detectors, pressure switches, duress, panic, and hold-up alarms.

California Inventory/Storage

Each licensee is required to assign an account manager to oversee the track and trace system. The account manager is fully trained on the system and is accountable to record all commercial cannabis activities accurately and completely. The licensee is expected to correct any data that is entered into the track and trace system in error within three business days of discovery of the error. The licensee is required to report information in the track and trace system for each transfer of cannabis or non-manufactured cannabis products to, or cannabis or non-manufactured cannabis products received from, other licensed operators. Licensees must use the track and trace system for all inventory tracking activities at a licensed premise, including, but not limited to, reconciling all on-premise and in-transit cannabis or non-manufactured cannabis product inventories at least once every 14 business days. The licensee must store cannabis and cannabis products in a secure place with locked doors.

California Record-keeping/Reporting

The cultivation, processing, and movement of cannabis within the state is tracked by the METRC system, into which all licensees are required to input their track and trace data (either manually or using another software that automatically uploads to METRC). Immature plants are assigned a Unique Identifier number (UID), and this number follows the flowers and biomass resulting from that plant through the supply chain, all the way to the consumer. Each licensee in the supply chain is required to meticulously log any processing, packaging, and sales associated with that UID.

Retail Compliance in California

California requires that certain warnings, images and content information be printed on all cannabis packaging. BCC regulations also include certain requirements about tamper-evident and child-resistant packaging. Distributors and retailers are responsible for confirming that products are properly labeled and packaged before they are sold to a customer.

Consumers aged 21 and up may purchase cannabis in California from a dispensary with an "adult-use" license. Some localities still only allow medicinal dispensaries. Consumers aged 18 and up with a valid physician's recommendation may purchase cannabis from a medicinal-only dispensary or an adult-use dispensary. Consumers without valid physician's recommendations may not purchase cannabis from a medicinal-only dispensary. All cannabis businesses are prohibited from hiring employees under the age of 21.

California Security

Each local government in California has its own security requirements for cannabis businesses, which usually include comprehensive video surveillance, intrusion detection and alarms and limited-access areas where only employees and other authorized individuals may enter. All licensee employees must wear employee badges. The limited-access areas must be locked with "commercial-grade, non-residential door locks on all points of entry and exit to the licensed premises."

Each licensed premises must have a digital video surveillance system that can "effectively and clearly" record images of the area under surveillance. Cameras must be "in a location that allows the camera to clearly record activity occurring within 20 feet of all points of entry and exit on the licensed premises." The regulations list specific areas which must be under surveillance, including places where cannabis goods are weighed, packed, stored loaded and unloaded, security rooms and entrances and exits to the premises. Retailers must record point of sale areas on the video surveillance system.

Licensed retailers must hire security personnel to provide on-site security services for the licensed retails premises during hours of operation. All security personnel must be licensed by the Bureau of Security and Investigate Services.

California Inspections

All licensees are subject to annual and random inspections of their premises. Cultivators may be inspected by the California Department of Fish and Wildlife, the California Regional Water Quality Control Boards, and the California Department of Food and Agriculture. Manufacturers are subject to inspection by the California Department of Public Health, and Retailers, Distributors, Testing Laboratories, and Delivery services are subject to inspection by the Department of Cannabis Control. Inspections can result in notices to correct, or notices of violation, fines, or other disciplinary action by the inspecting agency.

Cannabis taxes in California

Several taxes are imposed at the point of sale and are required to be collected by the retailer. The State imposes an excise tax of 15%, and a sales and use tax is assessed on top of that. Cities and Counties apply their sales tax along with the State's sales and use tax, and many cities and counties have also authorized the imposition of special cannabis business taxes which can range from 2% to 10% of gross receipts of the business.

U.S. Attorney Statements in California

To the knowledge of management of Stem, other than as disclosed in this Document, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California. See ***"Risk Factors"***.

Massachusetts

History

The Massachusetts Medical Use of Marijuana Program (the "**MA Program**") was formed pursuant to the Act for the Humanitarian Medical Use of Marijuana (the "**MA ACT**"). The MA Program allows registered persons to purchase medical cannabis and applies to any patient, personal caregiver, Registered Marijuana Dispensary (each, a "**RMD**"), and RMD agent that qualifies and registers under the MA Program. To qualify, patients must suffer from a debilitating condition as defined by the MA Program. Currently there are eight conditions that allow a patient to acquire cannabis in Massachusetts, including AIDS/HIV, ALS, cancer and Crohn's disease. The MA Program is administrated by the Department of Public Health, Bureau of Health Care Safety and Quality. In November 2016, Massachusetts voted affirmatively on a ballot petition to legalize and regulate cannabis for adult-use. The Massachusetts legislature amended the law on December 28, 2016, delaying the date adult-use cannabis sales would begin by six months. The delay allowed the legislature to clarify how municipal land-use regulations would treat the cultivation of cannabis and authorized a study of related issues. After further debate, the state House of Representatives and state Senate approved H.3818 which became Chapter 55 of the Acts of 2017, An Act to Ensure Safe Access to Marijuana, and established the Cannabis Control Commission (the "**MA CCC**"). The MA CCC consists of five commissioners and regulates the Massachusetts Recreational Marijuana Program. Adult-use of cannabis in Massachusetts started in July 2018.

Regulatory Summary (Medical)

Under the MA Program, RMDs are heavily regulated. Vertically integrated RMDs grow, process, and dispense their own cannabis. As such, each RMD is required to have a retail facility as well as cultivation and processing operations, although retail operations may be separate from grow and cultivation operations. A RMD's cultivation location may be in a different municipality or county than its retail facility. RMD's are required to be Massachusetts non-profit corporations.

The MA Program mandates a comprehensive application process for RMDs. Each RMD applicant must submit a Certificate of Good Standing, comprehensive financial statements, a character competency assessment, and employment and education histories of the senior partners and individuals responsible for the day-to-day security and operation of the RMD. Municipalities may individually determine what local permits or licenses are required if an RMD wishes to establish an operation within its boundaries.

Each Massachusetts dispensary, grower and processor license is valid for one year and must be renewed no later than 60 calendar days prior to expiration. As in other states where cannabis is legal, the MA CCC can deny or revoke licenses and renewals for multiple reasons, including (a) submission of materially inaccurate, incomplete, or fraudulent information, (b) failure to comply with any applicable law or regulation, including laws relating to taxes, child support, workers compensation and insurance coverage, (c) failure to submit or implement a plan of correction (d) attempting to assign registration to another entity, (e) insufficient financial resources, (f) committing, permitting, aiding, or abetting of any illegal practices in the operation of the RMD, (g) failure to cooperate or give information to relevant law enforcement related to any matter arising out of conduct at an RMD, and (h) lack of responsible RMD operations, as evidenced by negligence, disorderly or unsanitary facilities or permitting a person to use a registration card belonging to another person. Additionally, license holders must ensure that no cannabis is sold, delivered, or distributed by a producer from or to a location outside of this state.

Regulatory Summary (Adult-Use)

Many of the same application requirements exist for a marijuana establishment license as a RMD application, and each owner, officer or member must undergo background checks and fingerprinting with the CCC. Applicants must submit the location and identification of each site, and must establish a property interest in the same, and the applicant and the local municipality must have entered into a host agreement authorizing the location of the adult-use marijuana establishment within the municipality and said agreement must be included in the application. Applicants must include disclosure of any regulatory actions against it by the Commonwealth of Massachusetts, as well as the civil and criminal history of the applicant and its owners, officers, principals or members. The application must include the RMD applicant's plans for separating medical and adult-use operations, proposed timeline for achieving operations, liability insurance, business plan, and a detailed summary describing and/or updating or modifying the RMD's existing medical marijuana operating policies and procedures for adult-use including security, prevention of diversion, storage, transportation, inventory procedures, quality control, dispensing procedures, personnel policies, record keeping, maintenance of financial records and employee training protocols.

No person or entity may own more than 10% or "control" more than three licenses in each marijuana establishment class (i.e., marijuana retailer, marijuana cultivator, marijuana product manufacturer). Additionally, there is a 100,000 square foot cultivation canopy for adult-use licenses; however, there is no canopy restriction for RMD license holders relative to their cultivation facility.

Company Licenses

The Company holds a minority interest in an entity that holds one cultivation and one dispensary license in the State of Massachusetts. The table below lists the licenses indirectly held by the Company:

Holding Entity	Permit/License	City, State	Expiration Date	Description
CGP(1)	MR282695	Massachusetts	January 13, 2022	Dispensary and Cultivation License

Note:

(1) The Company holds a 13% interest in CGP, which operates a cannabis dispensary in Great Barrington, Massachusetts. CGP is also building a cannabis facility in Northampton, Massachusetts.

Massachusetts Transportation

A licensee transporting cannabis must ensure the product is in a secure, locked storage compartment. If a cannabis establishment, pursuant to a cannabis transporter license is transporting cannabis products for more than one cannabis establishment at a time, the cannabis products for each cannabis establishment must be kept in separate locked storage compartments during transportation and separate manifests are required for each cannabis establishment. Vehicles transporting cannabis must be equipped with an approved alarm system and functioning heating and air conditioning systems appropriate for maintaining correct temperatures for storage of cannabis products.

Massachusetts Inventory

Through the track and trace system, licensees are required to record all actions related to each individual cannabis plant. This robust inventorying requirement includes tracking how each plant is handled and processed from seed and cultivation, through growth, harvest and preparation of cannabis infused products, if any, to final sale of finished products. To meet this tracking requirement, the inventory tracking process is mandated to utilize unique plant and batch identification numbers. Besides capturing all processes associated with each cannabis plant, licensees must also establish and abide by inventory controls and procedures for conducting inventory reviews and comprehensive inventories of cultivating, finished, and stored cannabis products.

Massachusetts Security

Adequate security systems that prevent and detect diversion, theft, or loss of cannabis are required of each licensee.
To ensure licensees meet the rigorous security standards, use of surveillance cameras is mandated. Video cameras must be appropriate for the lighting conditions of the area under surveillance. Interior video cameras must be directed at all safes, vaults, sales areas, and areas where cannabis is cultivated, harvested, processed, prepared, stored, handled, or dispensed.

Massachusetts Record-keeping/Reporting

Massachusetts uses METRC as the track and trace system. Individual licensees, whether directly or through a third-party application programming interface, are required to push data to the state to meet all reporting requirements.

Massachusetts Inspections

The CCC or its agents may inspect a licensee and affiliated vehicles at any time without prior notice. A licensee shall immediately upon request make available to the CCC information that may be relevant to a CCC inspection, and the CCC may direct a licensee to test cannabis for contaminants.

U.S. Attorney Statements in Massachusetts

On July 10, 2018, the U.S. Attorney for the District of Massachusetts, Andrew Lelling, issued a statement regarding the legalization of adult-use cannabis in Massachusetts. Mr. Lelling stated that since he has a constitutional obligation to enforce the laws passed by Congress, he would not immunize the residents of Massachusetts from federal law enforcement. He did state, however, that his office's resources would be primarily focused on combating the opioid epidemic. He stated that considering those factors and the experiences of other states that have legalized adult-use cannabis, his office's enforcement efforts would focus on the areas of (i) overproduction, (ii) targeted sales to minors and (iii) organized crime and interstate transportation of drug proceeds.

To the knowledge of management of the Company, other than as disclosed in this Document, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Massachusetts.

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.

The Nevada Division of Public and Behavioral Health licensed medical cannabis establishments up until July 1, 2017, when the State's medical cannabis program merged with adult-use cannabis enforcement under the State of Nevada Department of Taxation, Marijuana Enforcement Division (the "Nevada Taxation Department"). In 2014, Nevada accepted medical cannabis business applications and a few months later the division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical cannabis dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. The application process is merit-based, competitive, and is currently closed. Residency is not required to own or invest in a Nevada medical cannabis business. In addition, vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other States to purchase cannabis from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical cannabis to patients.

Each medical cannabis establishment must register with the Nevada Taxation Department and apply for a medical cannabis establishment registration certificate. As noted above, the application process is competitive, and, among other requirements, there are minimum liquidity requirements and restrictions on the geographic location of a medical cannabis establishment as well as restrictions relating to the age and criminal background of employees, owners, officers and board members of the establishment. All employees must be over 21 and all owners, officers and board members must not have any previous felony convictions or had a previously granted medical cannabis registration revoked. Additionally, each volunteer, employee, officer, board member, and owner of an effective 5% or greater interest of a medical cannabis establishment must be individually registered with the Nevada Taxation Department as a medical cannabis agent and hold a valid medical cannabis establishment agent card. The establishment must have adequate security measures and use an electronic verification system and inventory control system. If the proposed medical cannabis establishment will sell or deliver edible cannabis products or cannabis-infused products, the proposed establishment must establish operating procedures for handling such products, which must be preapproved by the Nevada Taxation Department.

In response to the rescission of the Cole Memo, Nevada Attorney General Adam Laxalt had issued a public statement, pledging to defend the law after it was approved by voters. Then-Governor Brian Sandoval also stated, "Since Nevada voters approved the legalization of recreational cannabis in 2016, I have called for a well-regulated, restricted and respected industry. My administration has worked to ensure these priorities are met while implementing the will of the voters and remaining within the guidelines of both the Cole and Wilkinson federal memos," and that he would like for Nevada to follow in the footsteps of Colorado, where the U.S. attorneys do not plan to change the approach to prosecuting crimes involving recreational cannabis.

In determining whether to issue a medical cannabis establishment registration certificate pursuant to NRS 453A.322, the Nevada Taxation Department, in addition the application requirements set out, considers the following criteria of merit:

- the total financial resources of the applicant, both liquid and illiquid;
- the previous experience of the persons who are proposed to be owners, officers of board members of the proposed medical cannabis establishment at operating other businesses or non-profit organizations;
- the educational achievements of the persons who are proposed to be owners, officers of board members of the proposed medical cannabis establishment;
- any demonstrated knowledge or expertise on the part of the persons who are proposed to be owners, officers or board members of the proposed medical cannabis establishment with respect to the compassionate use of cannabis to treat medical conditions;
- whether the proposed location of the proposed medical cannabis establishment would be convenient to serve the needs of persons who are authorized to engage in the medical use of cannabis;
- whether the applicant has an integrated plan for the care, quality and safekeeping of medical cannabis from seed to sale;
- the amount of taxes paid to, or other beneficial financial contributions made to, the State of Nevada or its political subdivisions by the applicant or the persons who are proposed to be the owners, officers or board members of the proposed medical cannabis establishment; and
- any other criteria of merit that the Nevada Taxation Department determines to be relevant.

A medical cannabis establishment registration certificate expires 1 year after the date of issuance and may be renewed upon resubmission of the application information and renewal fee to the Nevada Taxation Department.

The sale of cannabis for adult-use in Nevada was approved by ballot initiative on November 8, 2016, and Nevada Revised Statute 453D exempts a person who is 21 years of age or older from state or local prosecution for possession, use, consumption, purchase, transportation or cultivation of certain amounts of cannabis and requires the Nevada Taxation Department to begin receiving applications for the licensing of cannabis establishments on or before January 1, 2018. The legalization of retail cannabis does not change the medical cannabis program.

In February 2017, the Nevada Taxation Department announced plans to issue "early start" recreational cannabis establishment licenses in the summer of 2017. These licenses, which began on July 1, 2017, allowed cannabis establishments holding both a retail cannabis store and dispensary license to sell their existing medical cannabis inventory as either medical or adult-use cannabis, and expired at the end of the year. As of July 1, 2017, medical and adult-use cannabis have incurred a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis has incurred an additional 10% special retail cannabis sales tax in addition to any general State and local sales and use taxes.

On January 16, 2018, the Nevada Taxation Department issued final rules governing its adult-use cannabis program, pursuant to which up to sixty-six (66) permanent adult-use cannabis dispensary licenses will be issued. Existing adult-use cannabis licensees under the "early start" regulations must re-apply for licensure under the permanent rules in order to continue adult-use sales.

Under Nevada's adult-use cannabis law, the Nevada Taxation Department licenses cannabis cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. For the first 18 months, applications to the Nevada Taxation Department for adult-use distribution establishment licenses can only be accepted from existing medical cannabis establishments and existing liquor distributors.

In September 2018, the Nevada Taxation Department accepted applications from existing Nevada medical cannabis establishment certificate owners to be awarded licenses for approximately 65 retail cannabis stores throughout the State. The application period closed on September 20, 2018, and the additional retail store licenses were awarded by the Nevada Taxation Department on December 5, 2018.

Regulatory Overview

The State of Nevada utilizes Metrc as its statewide seed-to-sale tracking system for all cannabis and cannabis products. All licensees within the State system are required, either directly or through third-party software systems that are capable of data integration, to report to the State all creation and transfers of such inventory to other licensees and sales to consumers. CSAC intends to designate a third-party computerized seed-to-sale inventory software tracking system designed to integrate with Metrc via an application programming interface.

Licensing Requirements

There are five certificate/license types issued in the State of Nevada:

"Marijuana cultivation facility" means an entity licensed to cultivate, process, and package cannabis, to have cannabis tested by a cannabis testing facility, and to sell cannabis to retail cannabis stores, to cannabis product manufacturing facilities, and to other cannabis cultivation facilities, but not to consumers. NRS 453D.030(9).

"Marijuana product manufacturing facility" means an entity licensed to purchase cannabis, manufacture, process, and package cannabis and cannabis products, and sell cannabis and cannabis products to other cannabis product manufacturing facilities and to retail cannabis stores, but not to consumers. NRS 453D.030(12).

"Retail marijuana store" means an entity licensed to purchase cannabis from cannabis cultivation facilities, to purchase cannabis and cannabis products from cannabis product manufacturing facilities and retail cannabis stores, and to sell cannabis and cannabis products to consumers. NRS 453D.030(18).

"Marijuana distributor" means an entity licensed to transport cannabis from a cannabis establishment to another cannabis establishment. NRS 453D.030(10).

"Marijuana testing facility" means an entity licensed to test cannabis and cannabis products, including for potency and contaminants. NRS 453D.030(15).

Administration of the regular retail program in Nevada is governed by Nevada Revised Statutes Section 453D and the Adopted Regulation of the Nevada Department of Taxation, LCB File R092-17 (the "Nevada Adult-Use Regulation"). The Nevada Adult-Use Regulation was adopted on February 27, 2018 and is a regulation relating to cannabis responsible for: (i) revising requirements relating to independent testing laboratories; (ii) providing for the licensing of cannabis establishments and registration of cannabis establishment agents; (iii) providing requirements concerning the operation of cannabis establishments; (iv) providing additional requirements concerning the operation of marijuana cultivation facilities, marijuana distributors, marijuana product manufacturing facilities, marijuana testing facilities and retail marijuana stores; (v) providing standards for the packaging and labeling cannabis and cannabis products; (vi) providing requirements relating to the production of edible cannabis products and other cannabis products; (vii) providing standards for the cultivation and production of cannabis; (viii) establishing requirements relating to advertising by cannabis establishments; (ix) establishing provisions relating to the collection of excise taxes from cannabis establishments; (x) establishing provisions relating to dual licensees; and (xi) providing other matters properly relating thereto.

In the State of Nevada, only cannabis that is grown or produced in the state by a licensed establishment may be sold in the state. The Nevada regulatory regime does not mandate or prohibit vertically integrated facilities and only permits the holder of a retail dispensary license and registration certificate to purchase cannabis from cultivation facilities, cannabis and cannabis products from product manufacturing facilities and cannabis from other retail stores, for the sale of such products to consumers.

A medical cultivation license permits its holder to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell cannabis and related supplies to medical cannabis dispensaries, facilities for the production of edible medical cannabis products and/or medical cannabis-infused products, or other medical cannabis cultivation facilities.

The medical product manufacturing license permits its holder to acquire, possess, manufacture, deliver, transfer, transport, supply, or sell edible cannabis products or cannabis infused products to other medical cannabis production facilities or medical cannabis dispensaries.

Medical marijuana establishment certificates and recreational cannabis facility licenses are issued independently to specific owners and at identified locations. Ownership of certificates and licenses is transferable in accordance with the Nevada Taxation Department's policies and procedures, including completion of a background investigation. Establishment certificates and facility licenses may only be relocated to a new location within the identified local jurisdiction.

All licenses expire one year after the date of issue. The Nevada Taxation Department shall issue a renewal license within 10 days after the receipt of a renewal application and applicable fee if the license is not then under suspension or has not been revoked.

Company Licenses

YMY, in which the Company owns a 50% interest, holds one medical cultivation license and one recreational cultivation license and one medical product manufacturing license and one recreational product manufacturing license in the State of Nevada. The table below lists the licenses indirectly held by the Company:

Holding Entity	Permit/License	City, State	Expiration Date	Description
YMY(1)	18897864143987354009	Las Vegas, Nevada	June 30, 2022	Medical Cultivation License
YMY(1)	49988620104464639364	Las Vegas, Nevada	June 30, 2022	Recreational Cultivation License
YMY(1)	78715576282428558550	Las Vegas, Nevada	June 30, 2022	Medical Product Manufacturing License
YMY(1)	32704290606712932888	Las Vegas, Nevada	June 30, 2022	Recreational Product Manufacturing License

Note:

(1) The Company holds a 50% interest in YMY, which operates a cannabis facility in North Las Vegas, Nevada.

Nevada Transportation

In Nevada, cannabis may only be transported from a licensed cultivation or production facility to a licensed retail cannabis establishment by a licensed marijuana distributor. Prior to transporting the cannabis or cannabis products, the distributor must complete a trip plan which includes: the agent name and registration number providing and receiving the cannabis; the date and start time of the trip; a description, including the amount, of the cannabis or cannabis products being transported; and the anticipated route of transportation.

During the transportation of cannabis or cannabis products, the licensed marijuana distributor agent must: (a) carry a copy of the trip plan with him or her for the duration of the trip; (b) have his or her cannabis establishment agent card in his or her immediate possession; (c) use a vehicle without any identification relating to cannabis and which is equipped with a secure lockbox or locking cargo area which must be used for the sanitary and secure transportation of cannabis, or cannabis products; (d) have a means of communicating with the cannabis establishment for which he or she is providing the transportation; and (e) ensure that all cannabis or cannabis products are not visible. After transporting cannabis or cannabis products a licensed marijuana distributor agent must enter the end time of the trip and any changes to the trip plan that was completed.

Each licensed marijuana distributor agent transporting cannabis or cannabis products must report any: (a) vehicle accident that occurs during the transportation to a person designated by the marijuana distributor to receive such reports within two (2) hours after the accident occurs; and (b) loss or theft of cannabis or cannabis products that occurs during the transportation to a person designated by the marijuana distributor to receive such reports immediately after the cannabis establishment agent becomes aware of the loss or theft. A marijuana distributor that receives a report of loss or theft pursuant to this paragraph must immediately report the loss or theft to the appropriate law enforcement agency and to the Nevada Taxation Department. The distributor must report any unauthorized stop that lasts longer than two (2) hours to the Nevada Taxation Department.

A marijuana distributor shall maintain the required documents and provide a copy of the documents required to the Nevada Taxation Department for review upon request. Each marijuana distributor shall maintain a log of all received reports.

Employees of licensed marijuana distributors, including drivers transporting cannabis and cannabis products, must be 21 years of age or older and must obtain a valid cannabis establishment agent registration card issued by the Nevada Taxation Department. If a marijuana distributor is co-located with another type of business, all employees of co-located businesses must have cannabis establishment agent registration cards unless the co-located business does not include common entrances, exits, break room, restrooms, locker rooms, loading docks, and other areas as are expedient for business and appropriate for the site as determined and approved by Nevada Taxation Department inspectors. While engaged in the transportation of cannabis and cannabis products, any person that occupies a transport vehicle when it is loaded with cannabis or cannabis products must have their physical cannabis establishment agent registration card in their possession.

All drivers must carry in the vehicle valid driver’s insurance at the limits required by the State of Nevada and the Nevada Taxation Department. All drivers must be bonded in an amount sufficient to cover any claim that could be brought or disclose to all parties that their drivers are not bonded. Cannabis establishment agent registration cardholders and the licensed marijuana distributor they work for are responsible for the cannabis and cannabis product once they take control of the product and leave the premises of the cannabis establishment.

There is no load limit on the amount or weight of cannabis and cannabis products that are being transported by a licensed marijuana distributor. Cannabis distributors are required to adhere to Nevada Taxation Department regulations and those required through their insurance coverage. When transporting by vehicle, cannabis and cannabis product must be in a lockbox or locked cargo area. A trunk of a vehicle is not considered secure storage unless there is no access from within the vehicle and it is not the same key access as the vehicle. Live plants can be transported in a fully enclosed, windowless locked trailer or secured area inside the body/compartment of a locked van or truck so that they are not visible to the outside. If the value of the cannabis and cannabis products being transported by vehicle is in excess of $10,000 (the insured value per the shipping manifest), the transporting vehicle must be equipped with a car alarm with sound or have no less than two (2) of the marijuana distributor’s cannabis establishment agent registration cardholders involved in the transportation. All cannabis and cannabis product must be tagged for purposes of inventory tracking with a unique identifying label as required by the Nevada Taxation Department and remain tagged during transport. This unique identifying label should be similar to the stamp for cigarette distribution. All cannabis and cannabis product when transported by vehicle must be transported in sealed packages and containers and remain unopened during transport. All cannabis and cannabis product transported by vehicle should be inventoried and accounted for in the inventory tracking system. Loading and unloading of cannabis and cannabis products from the transporting vehicle must be within view of existing video surveillance systems prior to leaving the origination location. Security requirements are required for the transportation of cannabis and cannabis products.

Nevada Inventory

Each cannabis establishment must maintain an inventory control system to monitor and report on chain of custody of cannabis in real-time, from the point of harvest at a cultivation facility until it is sold at a dispensary, or it is processed at a facility for the production of edible cannabis products or cannabis-infused products. For this purpose, Nevada tracks information through METRC which maintains the name of each person or cannabis establishment to cannabis is sold, for dispensaries, the date of sales, quantity, and potency. Cannabis establishments must exercise vigilance to ensure personal identifying information contained in the inventory control system is encrypted, protected and not divulged for any purpose not specifically authorized by law.

Nevada Security

To prevent unauthorized access to cannabis at a Nevada-licensed cannabis establishment, the cannabis establishment must have security equipment to deter and prevent unauthorized entrance into limited access areas. This includes devices or a series of devices interconnected with a radio frequency, such as cellular or private radio signals, or other mechanical device, covering the entirety of the facility. Exterior lighting to facilitate surveillance, video cameras with a recording rate of at least 15 frames per second covering all entrances and exits of the building, any room or area that hold a vault or point-of-sale location and which records 24 hours per day. Recordings must be accessible remotely by law enforcement in real time upon request. Video quality providing coverage of a point-of-sale location must allow for the identification of any person purchasing cannabis. Video recording must be restored for at least 30 days in a secure off-site location or other service that provides on-demand access to the Department Nevada Taxation Department.

Department Inspections

Each establishment that has been granted a provisional operating certificate by the Nevada Taxation Department must undergo facility and audit inspections by the Nevada Taxation Department prior to the issuance of a final registration certificate. Additionally, the issuance of a registration certificate is considered provisional until the establishment is in compliance with all applicable local government requirements including, without limitation, the issuance of a local business licenses.

After an establishment registration certificate has been issued, the cannabis establishment is subject to reasonable inspection from the Nevada Taxation Department and a licensee must make himself or herself, or an agent, available and present for any inspection required by the Nevada Taxation Department.

Delivery and Online Distribution

There are specific situations in which the delivery of cannabis to customers is allowed under the Nevada Taxation Department regulations. Delivery services to customers may only be carried out by retail stores that are licensed properly by the Nevada Taxation Department. Deliveries can only be brought to the residential addresses of customers and only within the State of Nevada. Delivery was allowed as soon as retail cannabis sales began on July 1, 2017, although those regulations were only temporary. Drivers may not deliver more than the legal amount of cannabis, which is currently one ounce, in compliance with the existing seed-to-sale tracking system. Cannabis or cannabis products may not be shipped via the US Postal Service or via any private courier.

U.S. Attorney Statements in Nevada

In response to the rescission of the Cole Memo, Nevada Attorney General Adam Laxalt had issued a public statement, pledging to defend the law after it was approved by voters. Then-Governor Brian Sandoval also stated, “Since Nevada voters approved the legalization of recreational cannabis in 2016, I have called for a well-regulated, restricted and respected industry. My administration has worked to ensure these priorities are met while implementing the will of the voters and remaining within the guidelines of both the Cole and Wilkinson federal memos,” and that he would like for Nevada to follow in the footsteps of Colorado, where the U.S. attorneys do not plan to change the approach to prosecuting crimes involving recreational cannabis.

In June 2019, incoming U.S. Attorney of the District of Nevada Nicholas Trutanich stated to the Reno Gazette Journal that he would not rule out the possibility of prosecuting cases related to cannabis, but did emphasize that it also was not a priority. He stated cannabis remains illegal under federal law, and his job is to enforce federal law. He stated, however, that one of his main priorities was to tackle the opioid crisis and human trafficking. He further stated that he is following orders from the DOJ.

To the knowledge of management of Stem, other than as disclosed in this Document, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Nevada. See *"Risk Factors"*.

New York (Industrial Hemp)

In December 2014, New York State enacted legislation authorizing a research-based industrial hemp program pursuant to authority granted in the Original Farm Bill (as defined herein) (predecessor to the Farm Bill in which industrial hemp was initially legalized in the U.S., though legalization extended to research-related activities only). The state of New York subsequently launched an Industrial Hemp Agricultural Research Pilot Program regulated by the New York Department of Agriculture ("**NY DOH**"). In December 2018, the state of New York opened an application period for "hemp cannabis," or industrial hemp grown and processed for cannabinoid content, and particularly for CBD. In late 2019, the state of New York enacted legislation that made sweeping, structural changes to the hemp program. As is relevant to the Company, processing hemp for the purpose of extracting cannabinoids and manufacturing hemp-derived cannabinoid products was removed from NY DOA regulatory oversight and moved to the New York Department of Health ("**NY DOA**"), which regulates medical cannabis. State regulators have initiated the process of transitioning licensees, such as Sound Wellness, from NY DOA to NY DOH. This process is expected to continue through calendar year 2020. Once the transition is complete, NY DOH is expected to promulgate hemp regulations. No significant changes to the hemp program are expected between now and when NY DOH issues new regulations.

Company Licenses

The table below lists the licenses directly held by the Company:

Holding Entity	Permit/License	City, State	Expiration Date	Description
Stem Holdings Agri, Inc.	HEMP-G-000478	New York	September 30, 2022	Industrial Hemp Research Partner Authorization

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 lab 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

Pursuant to the purchase of the Operating Companies by the Company, Stem has acquired an interest in five retail licenses, five producer licenses, two wholesaler license and three processing licenses.

The table below lists the licenses that are: (i) directly held by the Company; and (ii) held by the Company's operating partners:

Holding Entity	Permit/License	City, State	License Expiration Date	Description
JV Foods LLC	030-1014658322F	Eugene, Oregon	September 3, 2022	Recreational Processor
JV Extraction LLC	030-1014657D1EC	Eugene, Oregon	September 3, 2022	Recreational Processor
JV Extraction LLC/JV Wholesale LLC	030-101742659A2	Eugene, Oregon	September 16, 2022	Recreational Processor
JV Applegate LLC	020-10146602629	Jacksonville, Oregon	November 11, 2022	Recreational Producer
JV Wholesale LLC	060-10146555C41	Eugene, Oregon	September 3, 2022	Recreational Wholesaler
JV Extraction LLC/JV Wholesale LLC	060-1017430C9B0	Eugene, Oregon	September 16, 2022	Recreational Wholesaler
JV Wholesale LLC	060-10118468E74	Eugene, Oregon	June 2, 2022	Recreational Wholesaler
JV Production 3 LLC	020-1014656E7A7	Eugene, Oregon	September 3, 2022	Recreational Producer
OpCo Production 2 LLC	020-10146517BD5	Mulino, Oregon	September 3, 2022	Recreational Producer
OpCo Production 1 LLC	020-10146613F29	Springfield, Oregon	September 5, 2022	Recreational Producer
JV Retail 3 LLC	050-1017428AB09	Eugene, Oregon	September 16, 2022	Recreational Retailer
JV Retail 4 LLC	050-1017432812F	Salem, Oregon	September 16, 2022	Recreational Retailer
OPCO Retail 1 LLC	050-10146522DCF	Portland, Oregon	September 3, 2022	Recreational Retailer
JV Retail 2 LLC	050-1014653D811	Eugene, Oregon	September 3, 2022	Recreational Retailer
Kind Care, LLC	050-10146546503	Eugene, Oregon	September 3, 2022	Recreational Retailer
Stem Holdings Oregon, Inc.	020-1013432D099	Hillsboro, Oregon	June 23, 2022	Recreational Producer

Oregon Transportation

Licensed producers which transport cannabis to licensed retailers must comply with the following: (a) a licensee must keep cannabis items in transit shielded from public view, (b) the cannabis items must be of secured (locked-up) during transport, (c) the transport must be equipped with an alarm system, (d) the transport must be temperature controlled if perishable cannabis items are being transported, (e) the transport must provide arrival date and estimated time of arrival information, (f) all cannabis items must be packaged in shipping containers and labeled with a unique identifier, and (g) the transport must provide a copy of the printed manifest and any printed receipts for cannabis items delivered to law enforcement officers or other representatives of a government agency if requested to do so while in transit.

Oregon Inventory/Storage

OLCC licensees must report the following to Oregon's Cannabis Tracking System ("**CTS**") (a) a reconciliation of all on-premise and in-transit cannabis item inventories each day, (b) all information for seeds, usable cannabis, CBD concentrates and extracts by weight, (c) the wet weight of all harvested cannabis plants immediately after harvest, (d) all required information for CBD products by unit count, and (e) for retailer license holders, the price before tax and amount of each item sold to consumers and the date of each transaction. The data must be transmitted for each individual transaction before the retailer opens the next business day. All cannabis items on a licensed retailer's premises must be held in a safe or vault. All usable cannabis, cut and drying mature cannabis plants, CBD concentrates, extracts or products on the licensed premises of a licensee other than a retailer are to be kept in a locked, enclosed area within the licensed premises that is secured with at a minimum, a steel door with a steel frame or equivalent, and a commercial grade, non-residential door lock. All licensees must keep all video recordings and archived required records not stored electronically in a locked storage area. Current records may be kept in a locked cupboard or desk outside the locked storage area during hours when the licensed business is open.

Oregon Record-keeping/Reporting

Oregon uses the METRC trace and tracking system and allows other third-party system integration via an API to track cannabis. The Subsidiaries in Oregon use a third-party trace and tracking system to push the data to the state through an API to meet all reporting requirements. All cannabis products dispensed are documented at point of sale via the track and trace system. License holders must maintain the documentation from the track and trace system in a secure locked location at each dispensing or growing location for three years as required by the OLCC. The OLCC requires all cannabis licensees to have and maintain records that clearly reflect all financial transactions and the financial condition of the business. The following records may be kept in either paper or electronic form and must be maintained for a three year period and be made available for inspection if requested by the OLCC: (a) purchase invoices and supporting documents for items and services purchased for use in the production, processing, research, testing and sale of cannabis items that include from whom the items were purchased and the date of purchase, (b) bank statements for any accounts, (c) accounting and tax records, (d) documentation of all financial transactions, including contracts and agreements for services performed or received, and (e) all employee records, including training.

Oregon Security

A licensed premise must have a fully operational security alarm system, activated at all times when the licensed premises is closed for business. Among other features the security alarm system for the licensed premises must (a) be able to detect unauthorized entry onto the licensed premises and unauthorized activity within any limited access area where mature cannabis plants, usable cannabis, CBD concentrates, extracts or products are present, (b) be programmed to notify the licensee, a licensee representative or other authorized personnel in the event of an unauthorized entry, and (c) either have at least two operational "panic buttons" located inside the licensed premises that are linked with the alarm system that immediately notifies a security company or law enforcement, or have operational panic buttons physically carried by all employees present on the licensed premises that are linked with the alarm system that immediately notifies a security company or law enforcement.

A licensed premise must have a fully operational video surveillance recording system. Among other requirements, a licensed premise must have cameras that continuously record, 24 hours a day, seven days a week: (a) in all areas where mature cannabis plants, usable cannabis, CBD concentrates, extracts or products may be present on the licensed premises; and (b) all points of ingress and egress to and from areas where mature cannabis plants, usable cannabis, CBD concentrates, extracts or products are present. A licensee must keep all surveillance recordings for a minimum of 90 calendar days and have the surveillance room or surveillance area with limited access.

Oregon Inspections

All cannabis licensees may be subject to safety inspections of licensed premises by state or local government officials to determine compliance with state or local health and safety laws. The OLCC also may conduct an inspection at any time to ensure that a registrant, licensee or permittee is in compliance with Oregon state laws. A licensee, licensee representative, or permittee must cooperate with the OLCC during an inspection. If licensee, licensee representative or permittee fails to permit the OLCC to conduct an inspection the OLCC may seek an investigative subpoena to inspect the premises and gather books, payrolls, accounts, papers, documents or records.

U.S. Attorney Statements in Oregon

To the knowledge of management of Stem, other than as disclosed in this Document, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Oregon. See ***"Risk Factors"***.

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 state law, 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's compliance department includes the Chief Executive Officer and Chief Operating Officer of the Company, as well as the Company's managers in charge of cultivation, branding and sales.

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 Document, 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 Document

Ability to Access Public and Private Capital

While the Company is not able to obtain traditional bank financing in the U.S. or financing from other U.S. federally regulated entities, the Company currently has access to equity financing through the private markets in Canada and the U.S. Since the use of cannabis is illegal under U.S. federal law, and in light of concerns in the banking industry regarding money laundering and other federal financial crime related to cannabis, U.S. banks have been reluctant to accept deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty finding a bank willing to accept its business. Likewise, cannabis businesses have limited access, if any, to credit card processing services. As a result, cannabis businesses in the U.S. are largely cash-based. This complicates the implementation of financial controls and increases security issues.

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high-net-worth individuals and family offices that have made meaningful investments in companies and businesses similar to the Company. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable to the Company. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability. See "*Risk Factors*".

History of the Business

The Company was formed to purchase, lease, and improve certain real estate properties (the "Properties"), initially in the State of Oregon, which are or will be utilized as either state-licensed cannabis selling retail establishments or state-licensed cannabis growing and processing facilities. The Company previously operated primarily as a real estate holding company, and now engages in direct operations with respect to its properties and activities other than the leasing of properties, funding of capital improvements, and administration of its leases and provision of financing to certain lessees.

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

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

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

In September 2016, the Company entered into a 10-year lease with respect to certain property located in Springfield, OR (the "42nd Street Property") with the landlord that commenced in November 2016. In July 2017, the Company entered into a lease agreement for the 42nd Street Property.

On November 1, 2016, the Company acquired certain property located in Eugene, OR (the "Willamette Property"). In July 2017, the Company entered into an operating lease agreement with a marijuana dispensary to move into the Willamette Property.

On February 6, 2017, the Company acquired certain real property located at 7827 SE Powell Blvd, Portland, OR 97206 (the "Powell Property"). In July 2017, the Company entered into a lease agreement for the Powell Property.

In January 2018 the Company consummated a "Contract for Sale" whereby it purchased a Farm Property in Mulino OR (the "Mulino Property") which will be used for the cultivation of cannabis. In July 2017, the Company entered into a lease agreement with a third party for the Mulino Property.

Investments in Subsidiaries

In April 2018, the Company acquired a 37.5%, which was increased in fiscal 2020 to 50%, interest in NVD RE Corp. (“NVD”). In May 2020, the Company entered into a Share Exchange Agreement with the NVDRE shareholders to exchange their shareholdings that represent an additional 26.25% of NVDRE in exchange for the issuance of the Company’s common stock. The exchange amounted to the issuance of 386,035 shares of the Company’s common stock valued and recorded to investment at $196,000. As a result of the Share Exchange Agreement, the Company has an investment of 63.75% of NVD. NVD used its available funding to acquire an under- construction cannabis indoor grow building in Nevada and to continue the buildout of the property. NVD leases the property to YMY Ventures LLC (“YMY”).

In September 2018, the Company entered into an agreement to acquire 50% of the membership interest of YMY. YMY is a startup operation located near Las Vegas, Nevada and owns a license to cultivate and produce cannabis products. The purchase was conditioned upon the receipt of approval of the transfer of ownership by the State of Nevada Department of Taxation. On February 21, 2019, YMY received the approval of the transfer of ownership by the State of Nevada Department of Taxation. Thereafter, on March 1, 2019, the Company closed its acquisition of 50% of YMY. YMY has licenses that allow it to cultivate and produce cannabis and related products, but the Company failed in its attempt to acquire a retail sales license. As of March 31, 2020, YMY had commenced operations and begun generating revenues in the wholesale market.

On October 8, 2018, the Company and Yerba Buena Oregon, LLC (“Yerba”) entered into an Asset Purchase Agreement which provided for the Company to purchase certain assets and assume certain liabilities of Yerba. Yerba is a wholesale producer of recreational marijuana flower, by-product and pre-roll product in the state of Oregon.

On June 24, 2019, Stem received regulatory approval from the Oregon Liquor Control Commission and closed the previously announced acquisition of Yerba. Yerba operates an award-winning state-of-the-art cultivation facility equipped with an in-house genetics program and a cannabis library consisting of a few hundred strains.

On March 29, 2019, the Company executed a definitive agreement to acquire Western Coast Ventures, Inc. (“WCV”). WCV had a working capital surplus of approximately $2,000,000 and had negotiated a joint venture (the “JV”) with ILCA Holdings, Inc. (“ILCA”). ILCA has been issued a limited Conditional Use Permit for a Marijuana Production Facility (a “MPF”) by the City of San Diego, California, which will only be initially granting a total of 40 MPFs. Upon issuance of the final MPF permit and the completed construction, the JV will: (1) operate an advanced cannabis facility to grow and cultivate cannabis; (2) manufacture cannabis-derived products; and (3) distribute cannabis and cannabis-derived products state-wide throughout California. The Conditional Use Permit expires on August 30, 2023 and is subject to various terms and conditions detailed in the Permit. The Company determined the investment in ILCA was impaired and recognized an impairment expense of $2.2 million for the year ended September 30, 2021.

The MPF encompasses 10,700 square feet and will feature state-of-the-art technology for cultivation, production, and distribution. A complex, sophisticated, portable racking system will create a 10,000 square foot canopy that has the potential to produce over 6,000 pounds of product per year with the help of high efficiency LED lights. The production sector of the MPF will deliver a large variety of cannabis-derived offerings such as flowers, pre-rolls, infused edibles, and topicals. In September 2021, we fully impaired our investment of $2.8 million in ILCA.

Tilstar Medical, LLC

In April 2019, the Company entered into an agreement to acquire 48% of the membership interest of Tilstar Medical, LLC (“TIL”). TIL is a startup operation located in Laurel, Maryland and owns a project management company which assists in procuring licenses for the production and sale of cannabis. The purchase price for the 48% interest was $550,000 to capitalize TIL which under the operating agreement occurs upon the execution of the agreement. As of September 30, 2019, the Company had funded the $550,000 and accounted for its investment using the equity method of accounting. During the year ended September 30, 2019, the Company recorded a loss on investment of approximately $279,000. The Company was not made aware at time of its investment in the type and magnitude of expenses that would be funded with its investment capital and is currently in the process of renegotiating the terms of the operating agreement. During the year ended September 30, 2019, Tilstar Medical along with its partner, Stem Holdings, Inc, received a letter from the Maryland Medical Cannabis commission with notification that we received stage one pre-approval for a processor license. The Companies application ranked amongst the top nine highest scoring applications for a medical cannabis processor license. Final awards will be issued during calendar year 2020. As of September 30, 2021, and 2020, the difference between the investment and the percentage of net assets attributable to the Company’s investment was approximately $288,000 and $287,000, respectively.

Community Growth Partners, INC

On January 6, 2020, the Company entered into a joint venture with Community Growth Partners, Inc. ("CGP"), a vertically-integrated cannabis company with provisional licensed operations in Massachusetts.

The Massachusetts Cannabis Control Commission recently awarded CGP three provisional cannabis licenses for cultivation, manufacturing, and retail – making CGP one of the Commonwealth's first women- and minority-founded and owned businesses to become approved as a vertically-integrated cannabis operation. A new state-of-the-art indoor cultivation and manufacturing facility will be constructed in Northampton, MA for completion by Fall 2022, which will provide extraction and distribution capability.

Stem acquired 13% of CGP's common stock and provided CGP with a revolving line of credit for expansion into Massachusetts. Stem also provides CGP with administrative, cultivation, and manufacturing support services.

Seven Leaf Ventures Corp. ("7LV")

On March 6, 2020, the Company closed the acquisition of Seven Leaf Ventures Corp. ("7LV"), a private Alberta, Canada corporation, and its subsidiaries, pursuant to the terms of a share purchase agreement dated March 6, 2020. 7LV owns Foothills Health and Wellness, a medical dispensary, in the greater Sacramento, California area (the "Sacramento Dispensary"). Company management believes that the Sacramento Dispensary is expected to drive synergies with Stem's premium branded dispensaries in Eugene and Portland, OR. Stem also expects that the Sacramento Dispensary will receive its recreational license in the next 45 days.

Company purchase of Opco businesses

As long as the Company has fully satisfied all of its obligations and milestones pursuant to the Multiparty Agreement, the Company had the obligation to acquire the business operations of Opco Holdings and its subsidiaries, and Oregon Acquisitions, Gated Oregon and Kind Care (the "Operating Companies") has the obligation to sell such operations to the Company, within a reasonable time after the Company receives a legal opinion that the operation of the Opco marijuana businesses in the State of Oregon by Stem will not violate any federal or state laws. On August 12, 2019, the parties agreed to waive this condition with the Company proceeding with the purchase of the operating companies.

Pursuant to the terms of a merger agreement between the parties, Stem acquired Opco Holdings and its subsidiaries, and Oregon Acquisitions, Gated Oregon and Kind Care for a deemed aggregate purchase price of 12.5 million shares of the Company's common stock. The purchase price was satisfied by releasing the shares which were being held in escrow, to the beneficial owners of above-mentioned entities. As previously disclosed, certain beneficial owners of these entities are also directors, officers and/or shareholders of Stem. The transaction was subject to receipt of all necessary regulatory approvals from government entities of the State of Oregon. Definitive agreements have been executed and filed with the regulatory agency. On September 4, 2020, the Company received all of the necessary regulatory approvals from government entities of the State of Oregon and, pursuant to the Merger Agreements, the transaction was consummated on that date.

Merger with Driven

On October 5, 2020, Stem, Driven Deliveries, Inc. ("**Driven**") and Stem Driven Acquisition, Inc. ("**SDA**") entered into an Agreement and Plan of Merger (the "**Merger Agreement**") wherein Driven agreed to merge with and into SDA, with Driven being the surviving entity. Following completion of the merger transaction contemplated by the Merger Agreement (the "**Merger**"), Driven became a wholly-owned subsidiary of Stem on December 29, 2020.

Driven is an e-commerce and DaaS (delivery-as-a-service) provider with proprietary logistics and omni-channel user experience/customer experience ("**UX/CX**") technology. At the closing of the Merger, it is anticipated Stem will be re-named ***Driven by Stem***. Management of both Driven and Stem believe that following completion of the Merger, ***Driven by Stem*** will be the first vertically-integrated cannabis company with a DaaS platform. See "*Information Concerning Driven*" and "*Description of the Company – Post-Merger*".

The shares of common stock of Driven trade on the OTCQB market under the symbol "DRVD". At the effective date of the closing of the Merger, all of the then issued and outstanding shares of Driven will be converted into the right to receive shares of common stock of the Company (the "**Merger Consideration**"). The Merger Agreement includes interim covenant provisions applicable prior to the earlier of the (i) closing of the Merger, or (ii) termination of the Merger Agreement that, among other things, restrict the Company's ability to take certain actions with respect to the Company's organizational documents, including but not limited to amending the Certificate of Incorporation of the Company.

Under the terms of the Merger Agreement, Driven shareholders will receive one share of Company common stock for each share of Driven owned at the Effective Date. It is currently anticipated that shareholders of Stem and shareholders of Driven will hold approximately 47.4% and 52.6% of the Company following completion of the Merger. **The Merger does not constitute a "significant acquisition" for the Company under Part 8 of National Instrument 51-102 – *Continuous Disclosure Obligations* ("NI 51-102").**

Following the effective date of the Merger, the shares of Driven were be delisted from the OTCQB market. The shares of Company common stock issued in exchange for the shares of Driven Deliveries, Inc. commenced trading on the OTCQX and on the CSE under Stem's current symbols (OTCQX: STMH, CSE: STEM) following the closing of the Merger.

On December 17, 2021, pursuant to a Share Exchange Agreement the Company divested Driven Deliveries and its subsidiaries from the Company. Included in the terms of the Share Exchange Agreement, Driven Deliveries and its subsidiaries founders will return 11.5 million shares of the Company's common stock and assume $7.1 million of the Company's liabilities. Additionally, the Company will continue to be responsible for $210,753 of accounts payable acquired in the original acquisition.

Principal Products and Markets

The Company's principal operations have historically related to the leasing of properties, funding of capital, tenant improvements, and administration of its leases and provision of financing to certain lessees, engaged in the production and sale of cannabis. While the Company originally operated primarily as a real estate holding company, it is now engaged in direct operations, primarily the production and sale of cannabis in states where it is legal to do so, with respect to its properties and activities other than the leasing of properties, funding of capital improvements and administration of its leases and provision of financing to certain lessees. Historically, the Company's principal market has been in the State of Oregon, but it is now engaged in expansion into other markets where sale of marijuana is legal, including California, Nevada, Massachusetts, and Maryland.

Production and Sales

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

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

Company Funding

Private Placement Transactions

The Company has sold shares of its common stock in private placement transactions under the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "**Securities Act**"), and Regulation D promulgated thereunder and certain exemptions of the laws of the jurisdictions where any offering is made. In the fiscal years ended September 30, 2021, and 2020, the Company raised gross proceeds of approximately $2,695,000 and $450,000, respectively.

The securities issued in the above-mentioned transactions were issued in connection with private placements exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended, pursuant to the terms of Section 4(2) of that Act and Rule 506 of Regulation D. Investors who acquired shares of our common stock in the foregoing private placement transactions were all accredited investors and were required to complete, execute and deliver a subscription agreement and related documentation, which included customary representations and warranties, certain covenants and restrictions and indemnification provisions.

Promissory Note

In January 2020, the Company issued two promissory notes with a principal balance of $500,000 to accredited investors (the "Note Holders"). The notes mature in July 2020 and has an annual rate of interest of 12%. In connection with the issuance of the promissory notes, the Company issued the Note Holders 100,000 common stock purchase warrants with a five-year term from the issuance date, $0.85 per share. As of July 2020, in consideration of the warrants being amended to $0.45 per share with an extended the term from five to a ten-year term, the maturity date has been extended to December 13, 2020. In May 2020, the Company made a principal payment of $20,000. As of September 30, 2021, these obligations were converted into equity.

In January 2020, the Company issued two promissory notes with a principal balance of $500,000 to accredited investors (the "Note Holders"). The note matures in October 2020 and has an annual rate of interest of 12%. In connection with the issuance of the promissory note, the Company issued the Note Holders 100,000 common stock purchase warrants with a five-year term from the issuance date, $0.85 per. As of July 2020, in consideration of the warrants being amended to $0.45 per share with an extended the term from five to a ten-year term, the maturity date has been extended to December 13, 2020. As of September 30, 2020, the obligation outstanding is $500,000 and $440,403, net of debt discount of $59,597. As of September 30, 2021, the obligation outstanding is $425,000 and the balance is $358,996, net of debt discount of $66,004. The Company was notified that the maturity dates on these notes have been extended for the near-term.

The below Promissory Notes evidencing the PPP Loans are entered into subject to guidelines applicable to the program and contains customary representations, warranties, and covenants for this type of transaction, including customary events of default relating to, among other things, payment defaults and breaches of representations and warranties or other provisions of the Promissory Notes. The occurrence of an event of default may result in, among other things, the Company becoming obligated to repay all amounts outstanding. We continue to evaluate and may still apply for additional programs under the CARES Act, there is no guarantee that we will meet any eligibility requirements to participate in such programs or, even if we are able to participate, that such programs will provide meaningful benefit to our business. The Company plans to use the PPP funds received in a manner to obtain debt forgiveness. The Company will use the funds for payroll, rent, and utilities.

In July 2020, the Company's wholly owned subsidiary in Oregon received loan proceeds of $220,564 pursuant to the Paycheck Protection Program under the CARES Act. The Loan, which was in the form of a promissory note, dated July 09, 2020, between the Company and Cross River Bank as the lender, matures on July 09, 2022 and bears interest at a fixed rate of 1% per annum, payable monthly commencing in six months. Under the terms of the PPP, the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits mortgage interest, rent, and utilities. No assurance can be provided that the Company will obtain forgiveness of the Loan in whole or in part. In addition, details of the PPP continue to evolve regarding which companies are qualified to receive loans pursuant to the PPP and on what terms, and the Company may be required to repay some or all of the Loan due to these changes or different interpretations of the PPP requirements. As of September 30, 2021, the obligation outstanding of $220,565 was forgiven and recorded as other income.

The Company received loan proceeds of $266,820 pursuant to the Paycheck Protection Program under the CARES Act. The Loan, which was in the form of a promissory note, dated May 01, 2020, between the Company and Transportation Alliance Bank as the lender, matures on May 01, 2022, and bears interest at a fixed rate of 1% per annum, payable monthly commencing in six months. Under the terms of the PPP, the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits mortgage interest, rent, and utilities. No assurance can be provided that the Company will obtain forgiveness of the Loan in whole or in part. In addition, details of the PPP continue to evolve regarding which companies are qualified to receive loans pursuant to the PPP and on what terms, and the Company may be required to repay some or all of the Loan due to these changes or different interpretations of the PPP requirements. As of September 30, 2021, the obligation outstanding of $266,820 was forgiven and recorded as other income.

The Company's related entity received loan proceeds of $245,400 pursuant to the Paycheck Protection Program under the CARES Act. The Loan, which was in the form of a promissory note, dated June 03, 2020, between the Company and Coastal States Bank as the lender, matures on June 03, 2022, and bears interest at a fixed rate of 1% per annum, payable monthly commencing in six months. Under the terms of the PPP, the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits mortgage interest, rent, and utilities. No assurance can be provided that the Company will obtain forgiveness of the Loan in whole or in part. In addition, details of the PPP continue to evolve regarding which companies are qualified to receive loans pursuant to the PPP and on what terms, and the Company may be required to repay some or all of the Loan due to these changes or different interpretations of the PPP requirements. As of September 30, 2021, the obligation outstanding of $245,400 was forgiven and recorded as other income.

The Company's subsidiary received loan proceeds of $62,500 pursuant to the Paycheck Protection Program under the CARES Act. The Loan, which was in the form of a promissory note, dated June 25, 2020, between the Company and First Home Bank as the lender, matures on June 25, 2022, and bears interest at a fixed rate of 1% per annum, payable monthly commencing in six months. Under the terms of the PPP, the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits mortgage interest, rent, and utilities. No assurance can be provided that the Company will obtain forgiveness of the Loan in whole or in part. In addition, details of the PPP continue to evolve regarding which companies are qualified to receive loans pursuant to the PPP and on what terms, and the Company may be required to repay some or all of the Loan due to these changes or different interpretations of the PPP requirements. As of September 30, 2021, the obligation outstanding of $62,500 was forgiven and recorded as other income.

The Company's subsidiary received loan proceeds of $140,407 pursuant to the Paycheck Protection Program under the CARES Act. The Loan, which was in the form of a promissory note, dated July 15, 2020, between the Company and Cross River Bank as the lender, matures on December 30, 2020 and bears interest at a fixed rate of 1% per annum, payable monthly commencing in six months. Under the terms of the PPP, the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits mortgage interest, rent, and utilities. No assurance can be provided that the Company will obtain forgiveness of the Loan in whole or in part. In addition, details of the PPP continue to evolve regarding which companies are qualified to receive loans pursuant to the PPP and on what terms, and the Company may be required to repay some or all of the Loan due to these changes or different interpretations of the PPP requirements. As of September 30, 2021, the obligation outstanding of $140,407 was forgiven and recorded as other income.

Convertible Promissory Notes and Mortgages

Finance liability

On January 16, 2018, the Company consummated a "Contract for Sale" for a Farm Property in Mulino Oregon (the "Mulino Property"). The purchase price was $1,700,000 which was reduced by a rental credit of approximately $135,000 which is equivalent to nine months' rent at $15,000 a month and an additional credit of $9,500 for additional work done on the property. In connection with the purchase of the property, the Company made a cash payment as down payment plus payment of closing costs in the amount of $370,637 and issued a promissory note in the amount of $1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of $13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. No amount was recorded for the premium for the below market rate feature of the note as it was immaterial. The note is secured by a deed of trust on the property. The Company performed an analysis and determined that the rate obtained was below market, however, no premium was recorded as the Company determined it was immaterial. As of September 30, 2020, the balance due is $922,500. On November 23, 2020, the Company executed a real estate purchase agreement related to the Mulino Property which included the sale of the property and payoff of the mortgage. Additionally, the Company entered into a lease agreement whereas the amount of $13,750 required as a rent payment through the lease is being recorded as interest expense and the Company recorded a finance liability of $1,094,989 related to the lease under the guidance of ASC 842 as a failed sale and leaseback transaction.

Long-term debt, mortgages

In January 2020, the Company refinanced a mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 15% per annum. Monthly interest only payments began February 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance is due on January 31, 2022, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the CEO and Director of the Company. As of September 30, 2021, the obligation outstanding is $400,000.

In March 2020, the Company executed a $1,585,000 mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 11.55% per annum. Monthly interest only payments began April 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance is due on April 1, 2023, the maturity date of the mortgage, and is secured by the underlying property. The Company paid costs of approximately $120,000 to close on the mortgage. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the CEO and Director of the Company. On May 14, 2021, the Company exercised the purchase leaseback option of the original lease and sold the property back to the original owner. As of September 30, 2021, there was no obligation related to this property.

In March 2020, the Company executed a $400,000 mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 11.55% per annum. Monthly interest only payments began May 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance is due on April 1, 2022, the maturity date of the mortgage, and is secured by the underlying property. The Company paid costs of approximately $38,000 to close on the mortgage. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the CEO and Director of the Company. As of September 30, 2021, the obligation outstanding is $400,000.

In March 2020, the Company refinanced a mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 15% per annum. Monthly interest only payments began April 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance is due on March 31, 2022, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the CEO and Director of the Company. As of September 30, 2021, the obligation outstanding is $700,000.

In July 2020, the Company executed a mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 14% per annum. Monthly interest only payments began August 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance is due on July 31, 2023, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the CEO and Director of the Company. As of September 30, 2021, the obligation outstanding is $200,000.

In April 2018, the Company received a 37.5% interest in NVD RE Corp. (“NVD”) upon its issuance to NVD of a commitment to contribute $1.275 million to NVD which included the purchase price of $600,000 and an additional commitment to pay tenant improvement costs of $675,000. In the year ended September 30, 2019, NVD obtained $300,000 in proceeds from a mortgage on its property. The funds from this mortgage were advanced to the Company. The advance is undocumented, non-interest bearing and due on demand. As of September 30, 2019, the balance due totals $300,000. In August 2020, the Company refinanced this obligation and paid the $300,000 balance. The refinanced mortgage term is 36 months and includes and interest rate of 14% and monthly interest only payments of $4,667. As of September 30, 2021, the balance due totals $400,000.

CD Special Warrant Offering

On December 27, 2018, the Company entered into an Agency Agreement (the “Agency Agreement”) for a private offering of up to 10,000 convertible debenture special warrants of the Company (the “CD Special Warrants”) for aggregate gross proceeds of up to CDN$10,000,000 (the “Offering”). The net proceeds of the Offering were used for expansion initiatives and general corporate purposes. The Company’s functional currency is U.S. dollars.

In December 2018 and January 2019, the Company issued 3,121 CD Special Warrants in the first closing of the Offering, at a price of CDN $1,000 per CD Special Warrant, and received aggregate gross proceeds of CDN $3.1 million or $2.3 million USD. In connection with this offering, the Company issued the agents in such offering 52,430 convertible debenture special warrants (the “Broker CD Special Warrants”) as partial satisfaction of a selling commission.

On March 14, 2019, the Company issued 962 CD Special Warrants in the second and final closing of the Offering, at a price of CDN $1,000 per CD Special Warrant, and received aggregate gross proceeds of CDN $1.0 million or $0.7 million USD. In connection with this offering, the Company issued the agents in such offering 5,600 convertible debenture special warrants (the “Broker CD Special Warrants”) as partial satisfaction of a selling commission.

The total aggregate proceeds of the Offering totaled $4.1 million CDN or $3.1 million USD.

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 of the Company (a "Convertible Debenture Unit"), on the earlier of: (i) the third business day after the date on which both (A) a receipt (the "Receipt") for a (final) document (the "Qualification Document") qualifying the distribution of the Convertible Debentures (as defined below) and Warrants (as defined below) 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 (the "Canadian Jurisdictions"), 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 U.S. Securities and Exchange Commission (the "Registration"); and (ii) the date that is six months following the closing of the Offering. The Company has also provided certain registration rights to purchasers of the CD Special Warrants. The CD Special Warrants were exchanged for Convertible Debenture Units after six months as U.S. and Canadian registrations were not effective at that time.

Each Convertible Debenture Unit is comprised of CDN $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"). Each Warrant entitles the holder to purchase one common share of the Company (each, a "Warrant Share") at an exercise price of CDN $3.90 per Warrant Share for a period of 24 months following the closing of the Offering.

The Company has agreed to use its best efforts to obtain the Receipt and Registration within six months following the closing of the Offering. If the Receipt and Registration have not been obtained on or before 5:00 p.m. (PST) on the date that is 120 days following the closing of the Offering, each unexercised CD Special Warrant will thereafter entitle the holder thereof to receive, upon the exercise thereof and at no additional cost, 1.05 Convertible Debenture Units per CD Special Warrant (instead of 1.0 Convertible Debenture Unit per CD Special Warrant). Until the Receipt and Registration have been obtained, securities issued in connection with the Offering (including any underlying securities issued upon conversion or exercise thereof) will be subject to a six (6)-month hold period from the date of issue. Since the CD Special Warrants were exchanged for Convertible Debenture Units after six (6) months as U.S. and Canadian registrations were not effective at that time, the holders received 1.05 Convertible Debenture Units per CD Special Warrant.

The brokered portion of the Offering (CDN $2.5 million, $1.9 million USD) was completed by a syndicate of agents (collectively, the "Agents"). The Company paid the Agents a cash commission equal to 7.0% of the gross proceeds raised in the brokered portion of the Offering. As additional consideration, the Company issued the Agents such number of non-transferable broker convertible debenture special warrants (the "Broker CD Special Warrants") as is equal to 7.0% of the number of CD Special Warrants sold under the brokered portion of the Offering. Each Broker CD Special Warrant shall be exchanged, on the same terms as the CD Special Warrants, into broker warrants of the Company (the "Broker Warrants"). Each Broker Warrant entitles the holder to acquire one Convertible Debenture Unit at an exercise price of CDN $1,000, until the date that is 24 months from the closing date of the Offering. The distribution of the Broker Warrants issuable upon the exchange of the Broker CD Special Warrants shall also be qualified under the Qualification Document and the resale of the common shares underlying the Broker Warrants will be registered under the Registration Statement. The Company also paid the lead agent a commission noted above of CDN$157,290, corporate finance fee equal to CDN $50,000 in cash and as to $50,000 in common shares of the Company at a price per share of CDN$3.00 plus additional expenses of CDN$20,000. In addition, the Company paid the trustees legal fees of CDN$181,365. In total the Company approx. USD $0.32 million in fees and expenses associated with the offering.

The issuance of the securities was made in reliance on the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), for the offer and sale of securities not involving a public offering, Regulation D promulgated under the Securities Act, Regulation S, in Canada to "accredited investors" within the meaning of National Instrument 45106 and other exempt purchasers in each province of Canada, except Quebec, and/or outside Canada and the United States on a basis which does not require the qualification or registration. The securities being offered have not been registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons absent registration or an applicable exemption from the registration requirements.

Merger with Driven Deliveries, Inc.

On October 13, 2020, Stem Holdings, Inc. (“STEM”), Driven Deliveries, Inc. (“DRVD”) and Stem Driven Acquisition, Inc. (“SDA”) and entered into an Agreement and Plan of Merger (the “*Merger Agreement*”) wherein DRVD would merge with and into SDA, with DRVD being the surviving entity and, following closing of the merger transaction, would become a wholly-owned subsidiary of STEM. Pursuant to the Merger Agreement, STEM exchanged one newly-issued share of STEM common stock for each issued and outstanding share of DRVD. The merger transaction closed on December 29, 2020 upon satisfaction of all terms and conditions of the Merger Agreement and completion of due diligence by all entities.

STEM is a vertically-integrated cannabis and hemp branded products company with state-of-the-art cultivation, processing, extraction, retail, and distribution operations throughout the United States. DRVD is an e-commerce and DaaS (delivery-as-a-service) provider with proprietary logistics and omnichannel UX/CX technology. At the closing, STEM would be re-named ***Driven by Stem*** and would maintain its corporate headquarters in Boca Raton, Florida. Management of both DRVD and STEM believe that following completion of the merger transaction, ***Driven by Stem*** will be the first vertically-integrated cannabis company with a DaaS platform, which will meet the needs of all cannabis consumers in markets served.

Presently, STEM is traded on the OTCQX market and Canadian Stock Exchange under the symbols STMH and STEM, respectively. DRVD is presently traded on the OTCQB market. At the effective date of the closing of the merger transaction, all shares of DRVD will be converted into the right to receive shares of STEM Common Stock (the “*Merger Consideration*”). The Merger Agreement includes interim covenant provisions applicable prior to the earlier of the (i) closing of the Merger or (ii) termination of the Merger Agreement that, among other things, restrict our ability to take certain actions with respect to the Company’s organizational documents, including but not limited to amending the Certificate of Incorporation.

Under the terms of the Merger Agreement, DRVD shareholders received (based on closing share prices as of October 13, 2020) an aggregate purchase price of approximately US$27.5M. Based on the October 13, 2020 closing prices of both DRVD and STEM, Driven by Stem would had a combined market capitalization of approximately US$54 million, based on to closing market price of the Stem Shares and Driven Shares on the OTCQX and the OTCQB, respectively, on October 13, 2020 and 65M Stem Shares and 75M Driven Shares being outstanding on October 13, 2020.

The intent of the merger was to integrate DRVD’s delivery capability and technology in every state in which STEM currently operates. During the later part of 2021, it became obvious to the Company’s management and Board of Directors that the business model of the combined STEM and DRVD entities was not working and, in fact, was generating substantial ongoing losses which could not be ameliorated. Within any reasonable time frame.

As a result, on December 17, 2021, pursuant to a Share Exchange Agreement, the Company sold Driven Deliveries and its subsidiaries to the shareholders of Budee, Inc. in a transaction which STEM fully divested its interest in Driven Deliveries and its subsidiaries. Included in the terms of the Share Exchange Agreement, the shareholders of Budee, and a prior officer of Driven Deliveries returned approximately 11.5 million shares of the Company’s common stock and assumed approximately $7.1 million of the Company’s liabilities. Notwithstanding, the Company will continue to be responsible for $210,753 of accounts payable assumed in the acquisition of Driven Deliveries.

Employees

As of September 30, 2021, the Company had approximately four hundred fifty (450) employees, most of whom devote their full time to the Company's operations. The Company expects that the number of employees will substantially decrease as a result of the divestiture of Driven Deliveries. No employee is covered by a collective bargaining agreement.

Website.

The Company operates a website at www.stemholdings.com

ITEM 1A. RISK FACTORS

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

In July 2016, the Company entered into a 10-year lease for a commercial building from an unrelated third party in Springfield, Oregon. At the time the original lease was entered into, the Company had expected to close on significant subscriptions from its private placement. However, when those did not immediately materialize, the Company entered into an agreement with the landlord to cancel the lease and in addition, paid the landlord $15,000 not to rent out the property until such time the Company could enter into a new lease. In September 2016, the Company entered into a new 10-year lease with the landlord that commenced in November 2016. The lease requires the Company to pay a starting base rental fee of $7,033 plus an additional estimated $315 per month in real estate taxes in which the base rental fee escalates each year by approximately 2%. All taxes (including reconciling real estate taxes), maintenance and utilities are included at the end of each year as a one-time payment. In addition, the Company also remitted $14,000 for a security deposit to the landlord. No amounts have been recorded for deferred rent in these financial statements as the amount was deemed immaterial by the Company. The Company has subleased this space pursuant to a 10-year lease. On February 22, 2018, both parties executed a lease addendum that adds contiguous property for 12,322 square feet. The term commences November 1, 2017, and continues through November 31, 2026 at a starting rate of $3,525 a month that escalates after the first year. The Company subleases this property to a related party (see disclosures below under "Springfield Suites"). As of September 30, 2021, Company eliminates this rental income in consolidation.

In March 2018, the Company entered into a 3-year lease for the occupancy of the Company's corporate office located in Boca Raton, Florida. The lease requires the Company to pay a base rental fee of $3,024 per month with yearly increases thereafter. All taxes, maintenance and utilities are billed separately. This space was subleased through January 31, 2021. The lease terminated in February 2021.

In September 2019, the Company entered into a 4-year lease for the occupancy of the Company's new corporate office located in Boca Raton, Florida. The lease requires the Company to pay a starting base rental fee of $4,285 per month with yearly increases thereafter. As of November 23, 2020, the Company added an additional 2,000 rentable square feet to its current lease under the same terms and conditions.

In January 2019, the Company entered into a 5-year lease for the occupancy of real estate and a building located in Hillsboro, Oregon. The lease requires the Company to pay a starting base rental fee of $9,696 per month with yearly increases thereafter.

Pursuant to the execution of a sale lease back agreement with the Company's Wallis property, a/k/a Never Again, the Company in May 2021, entered into a 15-year lease for the Wallis commercial building from an unrelated third party located in New York, NY. The lease requires the Company to pay a starting base rental fee of $31,500 plus an additional estimated triple net charges per month including real estate taxes in which the base rental fee escalates each year by approximately 2.5%. All taxes (including reconciling real estate taxes), maintenance and utilities are included and paid monthly and reserved until payments are due. In addition, the Company also remitted $60,000 for a security deposit to the landlord.

In November 2020, the Company executed a mortgage payable on property located in Mulino, Oregon to acquire additional funds. The mortgage bears interest at 15% per annum. Monthly interest only payments began December 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance is due November 2022, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the CEO and Director of the Company. On November 23, 2020, the Company executed a real estate purchase agreement related to the Mulino Property which included the sale of the property and payoff of the mortgage. Additionally, the Company entered into a 2-year lease agreement whereas the amount of $13,750 required as a rent payment through the lease is being recorded as interest expense and the Company recorded a finance liability of $1,094,989 related to the lease under the guidance of ASC 842 as a failed sale and leaseback transaction.

In March 2020, as part of the acquisition of 7LV, the Company assumed a 4-year lease agreement that 7LV executed in February 2019 for the occupancy of a retail location in the greater Sacramento, California area. As of March 2020, the lease requires the Company to pay a starting base rental fee of $3,820 per month with annual increases of 3% per the commencement date of February 2019.

On September 17, 2021, as part of an Assignment and Assumption of Lease agreement and Plan of Reorganization, the Company assumed a Commercial Lease Agreement dated June 16, 2016. The lease has a remaining term of 44 months with a base monthly rent of $5,516 with an annual increase of 2%. The lease term ends on April 30, 2025.

On September 17, 2021, as part of an Assignment and Assumption of Lease agreement and Plan of Reorganization, the Company assumed a Commercial Real Estate Lease Agreement dated January 11, 2017. The lease has a remaining term of 34 months with a base monthly rent of $4,520 with an annual increase of 3% in June. The lease term ends on June 1, 2024.

Concurrent with the Plan of Reorganization dated September 17, 2021, the Company executed a Real Property Lease Agreement with a term of 62 months. Pursuant to this Agreement, no rent payments will be due the first two months and rental payments will commence in November, 2021 in the amount of $4,505 per month. There will be an annual 3% rental increases each November for the term of the lease. The lease term ends on October 1, 2026.

ITEM 3. LEGAL PROCEEDINGS

D.H. Flamingo, Inc. v. Department of Taxation*, et. al.*

On February 27, 2020, a subsidiary of the Company (YMY Ventures, LLC) was served with a Summons and Second Amended Complaint in a matter pending in the District Court of Clark County Nevada (Case # A-19-787004-B) which is styled "D.H. Flamingo, Inc. v. Department of Taxation, ***et. al.***" (the DOT Litigation"). In this matter, the Plaintiff is alleging that certain parties (including YMY Ventures, LLC) received Conditional Recreational Marijuana Establishment Licenses, while certain other parties (including Plaintiff) were denied licenses. In the matter, Plaintiff seeks declaratory relief, injunctive relief, relief from violation of procedural and substantive due process, violation of equal protection, unjust enrichment, judicial review of the entire matter, together with a Petition for Writ of Mandamus. The Plaintiff seeks damages in an unspecified amount. Thereafter, on April 20, 2020, YMY Ventures, LLC filed a Notice of Non-Participation and Request for Dismissal. The Company believes it will ultimately be dismissed from the action without any liability exposure. Notwithstanding, there is no guarantee at this time that this will occur, and the ultimate result of the matter could potentially be the loss of YMY Ventures, LLC's Conditional Recreational Marijuana Establishment License. This matter has now been fully resolved without any financial exposure on the part of the Company.

Chord Advisors, LLC v. Stem Holdings, Inc., *et. al.*

On June 5, 2020 Chord Advisors, LLC ("Chord") filed a Complaint in the Circuit Court of the Fifteenth Judicial District in and for Palm Beach County, Florida (Case # 502020CA006097) alleging that Stem Holdings, Inc. owes Chord approximately $260,000 on account of fees for accounting services accrued pursuant to a Letter of Agreement dated October 2019. On July 6, 2020, the Company filed an Answer and Affirmative Defenses to the Complaint. This matter has now been fully resolved without any material financial exposure to of the Company.

Lili Enterprises, LLC adv. YMY Ventures and OPCO, LLC

In July 2020, a dispute arose with the Company's joint venture partner in connection with the Company's operations in the State of Nevada. In this regard, the Company's joint venture partner claims that it is owed certain amounts totaling approximately $307,500 pursuant to the joint venture Operating Agreement. On the other hand, the Company claims that the joint venture partner is in breach of its agreements with the Company and that the Company has heretofore advanced over $1 million in excess of its commitments under the Operating Agreement. This matter has now been fully resolved without any material financial exposure on the part of the Company.

TrueFarma

This arbitration arose from the plaintiff's claim that Driven adversely impacted their business. This matter was settled and the arbitration was dismissed on September 29, 2021 in consideration of mutual general releases among the parties. As a result, the matter has now been fully resolved without any financial exposure on the part of the Company.

Additionally, the Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. To the best of our knowledge, as of December 22, 2021, the Company was not a party to any other material litigation, claim or suit whose outcome could have a material effect on the Company's financial statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

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

The Company's common stock commenced trading on the OTCQB on May 23, 2018 under the symbol "STMH" and the Canadian Securities Exchange (CSE) on July 13, 2018 under the symbol "STEM". On October 3, 2019, the Company commenced trading on the OTCQX.

The following table shows the high and low prices of our common shares on the OTCQB/OTCQX for each quarter for quarter from October 1, 2019 through September 30, 2021. The following quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions:

Period	High	Low
October 1, 2019-December 31, 2019	$ 1.20	$ 0.79
January 1, 2020-March 31, 2020	$ 1.10	$ 0.31
April 1, 2020-June 30, 2020	$ 0.60	$ 0.38
July 1, 2020-September 30, 2020	$ 0.50	$ 0.21
October 1, 2020-December 31, 2020	$ 0.67	$ 0.34
January 1, 2021-March 31, 2021	$ 1.39	$ 0.41
April 1, 2021-June 30, 2021	$ 0.75	$ 0.34
July 1, 2021-September 30, 2021	$ 0.40	$ 0.23

The market price of our common stock, like that of other early-stage cannabis-related companies, is highly volatile and is subject to fluctuations in response to variations in operating results, announcements of technological innovations or new products, or other events or factors. Our stock price may also be affected by broader market trends unrelated to our performance.

Holders

As of January 6, 2022, there were 223,452,741 shares of common stock par value $0.001 and there were approximately 438 shareholders of record.

Transfer Agent and Registrar

Our transfer agent is Odyssey Stock Transfer, Inc., located at Suite 702, 67 Yonge Street, Toronto, ON M5E 1J8.

Dividend Policy

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

RECENT SALES OF UNREGISTERED SECURITIES

The following table sets forth all securities issued by Stem between October 1, 2020, and September 30, 2021:

	Security	No. Shares
Services	Common Stock	4,880,979
Compensation	Common Stock	3,914,509
Issuance of common stock related to cash sales	Common Stock	1,465,117
Issuance of common stock related to option exercise	Common Stock	10,000
Interest and converted notes	Common Stock	10,327,376
Issuance of common stock in connection with deposit for an asset acquisition	Common Stock	300,000
Issuance of common stock related to settlement payment	Common Stock	500,000
Issuance of common stock in connection with Prospectus	Common Stock	19,276,340
Issuance of common stock in connection with Private Placement Memorandum	Common Stock	5,322,136
Issuance of common stock in connection with asset acquisitions	Common Stock	110,178,122
Cancelled	Common Stock	(1,277,773)
Total		154,896,806

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

Share Issuances to Consultants, Employees and Directors for Compensation and Severance

During the year ended September 30, 2021, the Company issued 3,914,509 shares of its common stock and recorded compensation expense of $1.68 million.

During the year ended September 30, 2021, the Company granted options to acquire 1,875,000 shares of its common stock at an exercise price ranging from $0.15 to $1.00 per share. During the year ended September 30, 2021, the Company granted warrants to acquire 59,451,853 shares of its common stock at exercise prices ranging from $0.40 to $0.53 per share.

During the year ended September 30, 2020, the Company issued 1,635,422 shares of its common stock and recorded compensation expense of $1.1 million.

During the year ended September 30, 2020, the Company granted options to acquire 2,362,500 shares of its common stock at an exercise price ranging from $0.29 to $1.25 per share. During the year ended September 30, 2020, the Company granted warrants to acquire 2,872,813 shares of its common stock at exercise prices ranging from $0.36 to $2.96 per share.

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

ITEM 6. SELECTED FINANCIAL DATA

Pursuant to permissive authority under Regulation S-K, Rule 301, we have omitted Selected Financial Data.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Information and Factors That May Affect Future Results

This annual report on Form 10-K contains forward-looking statements regarding our business, financial condition, results of operations and prospects. The Securities and Exchange Commission (the "SEC") encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This annual report on Form 10-K and other written and oral statements that we make from time to time contain such forward-looking statements that set out anticipated results based on management's plans and assumptions regarding future events or performance. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated sales efforts, expenses, the outcome of contingencies, such as legal proceedings, and financial results. Factors that could cause our actual results of operations and financial condition to differ materially are set forth in the "Risk Factors" section of this annual report on Form 10-K.

We caution that these factors could cause our actual results of operations and financial condition to differ materially from those expressed in any forward-looking statements we make and that investors should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors emerge from time to time, and it is not possible for us to predict all such factors. Further, we cannot assess the impact of each such factor on our results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

The following discussion should be read in conjunction with our audited financial statements and the related notes that appear elsewhere in this annual report on Form 10-K.

RESULTS OF OPERATIONS

The following comparative analysis on results of operations was based primarily on the comparative consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the audited consolidated financial statements and the notes to those statements for the years ended September 30, 2021, and 2020, which are included elsewhere in this annual report on Form 10-K. The results discussed below are for the years ended September 30, 2021, and 2020 (in thousands).

	Years Ended September 30,		**Change**	
($ in thousands)	**2021**	**2020**	**$**	**%**
Gross Revenue	$ 41,784	$ 16,371	$ 25,413	155%
Discounts and returns	(6,015)	(2,397)	(3,618)	151%
Net Revenue	35,769	13,974	21,795	156%
Cost of goods sold	(28,183)	(10,306)	(17,877)	173%
Consulting fees	(2,978)	(2,546)	(432)	17%
Professional fees	(3,537)	(2,526)	(1,011)	40%
General and administration	(16,445)	(8,262)	(8,183)	99%
Impairment of intangible assets	(52,490)	-	(52,490)	100%
Other income (expenses), net	3,492	(1,574)	5,066	322%
Loss from equity method investees	(234)	(253)	19	(8)%
Net loss	$ (64,606)	$ (11,493)	$ (53,113)	462%

Revenues

In years ended September 30, 2021, and 2020, the Company engages directly in the cultivation, production and sale of cannabis and related products.

In 2020 and 2021, the Company's revenue was generated in the states of Oregon, Nevada, and California.

Cost of Revenues

Cost of revenues for the year ended September 30, 2021, and 2020 totaled approximately $28.2 million and $10.3 million, respectively. The cost of revenue consisted of cannabis product cost, which includes contracted labor, growing, and trimming expenses, and product testing. The Company expects its cost of revenues to grow in line with its future revenue growth.

Operating Expenses

Consulting Fees

Consulting fees for the years ended September 30, 2021, and 2020 totaled approximately $3.0 million and $2.5 million, respectively. The increase of $432 thousand is primarily related to stock-based compensation expenses recognized during the year ended September 30, 2021, for restricted stock awards and warrants to acquire the Company's common stock issued to consultants.

Professional Fees

Professional fees for the years ended September 30, 2021, and 2020 totaled approximately $3.5 million and $2.5 million, respectively. The increase of $1.0 million is primarily related to legal, accounting, and other professional fees incurred as a result of acquisitions during the year ended September 30, 2021. We expect our professional fees to increase as we continue to grow our business.

General and Administrative

General and administrative expenses for the years ended September 30, 2021, and 2020 totaled approximately $16.4 million and $8.3 million, respectively. The increase of $8.2 million is primarily related to an increase in stock-based compensation for employees and officers and an increase in option expense for employees, directors, and officers.

Impairment of Property and Equipment and Intangibles

Impairment expenses related to property and equipment totaled approximately $52.5 million for the year ended September 30, 2021. The Company recorded an impairment expense of $2.2 million related to investment in WCV. The Company also recorded impairment expense of $50.3 million related to the intangible assets and a related party receivable of Driven.

The Company did not incur impairment expense for the year ended September 30, 2020.

Other Income (Expense)

Other income for the year ended September 30, 2021, totaled approximately $3.5 million. Other expense for the year ended September 30, 2020, totaled approximately $1.6 million. The increase in other income was primarily the result the change in fair value of warranty and derivative liabilities coupled with the forgiveness of PPP loans and a gain on the sale of a property.

Loss from Equity Method Investees

Related to the year ended September 30, 2021, the Company recognized a loss $0.2 million from equity method investees as compared to a loss of $0.3 million in 2020.

Below is a presentation of Non-Generally Accepted Accounting Principles ("non-GAAP") presentation of Earnings Before Interest Taxes Depreciation and Amortization ("EBITDA") for the years ended September 30, 2021, and 2020.

Earnings Before Interest Taxes Depreciation and Amortization ("EBITDA"):

	Years Ended September 30,	
($ in thousands)	2021	2020
Revenue	$ 41,784	$ 16,371
Discounts and returns	(6,015)	(2,397)
Cost of goods sold	28,183	10,306
Consulting fees	2,978	2,546
Professional fees	3,537	2,526
General and administration	16,445	8,262
Impairment of intangible assets	52,490	-
Other income (expenses), net	3,492	(1,574)
Loss from equity method investees	234	253
Net loss- Generally Accepted Accounting Principles ("GAAP")	**(64,606)**	**(11,493)**
Add Backs:		
Interest	1,881	2,434
Taxes	-	-
Depreciation and amortization	5,389	2,366
EBITDA (non-GAAP)	**(57,336)**	**(6,693)**
Other Add Backs:		
Stock-based compensation	2,082	2,073
Impairment of intangible assets	52,490	-
Change in fair value of derivative liability	(577)	190
Change in fair value of warrant liability	(2,401)	(1,065)
Foreign currency translation adjustment	(91)	15
Adjusted EBITDA (non-GAAP)	**$ (5,833)**	**$ (5,480)**

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2021, we had negative working capital of approximately $3 million, which included cash and cash equivalents of $5.6 million. We reported a net loss of approximately $65 million and our net cash used in operating expenses totaled $9.2 million, our cash used in investing activities was $0.2 million and cash flows from financing activities totaled $12.4 million.

Subsequent to September 30, 2021, we received gross proceeds of approximately $40,000 from the exercise of warrants and $238,000 from subscription agreements in connection with private placements.

Going Concern

On September 30, 2021, the Company had approximate balances of cash and cash equivalents of $5.6 million, negative working capital of $3 million, total stockholders' equity of $34.2 million and an accumulated deficit of $115.8 million.

These audited consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

While the recreational use of cannabis is legal under the laws of certain States, where the Company has and is working towards further finalizing the acquisition of entities or investment in entities that directly produce or sell cannabis, the use and possession of cannabis is illegal under United States Federal law for any purpose, by way of Title II of the Comprehensive Drug Abuse Prevention and Control Act of 1970, otherwise known as the Controlled Substances Act of 1970 (the "ACT"). Cannabis is currently included under Schedule 1 of the Act, making it illegal to cultivate, sell or otherwise possess in the United States.

On January 4, 2018, the office of the Attorney General published a memo regarding cannabis enforcement that rescinds directives promulgated under former President Obama that eased federal enforcement. In a January 8, 2018 memo, Jefferson B. Sessions, then Attorney General of the United States, indicated enforcement decisions will be left up to the U.S. Attorney's in their respective states clearly indicating that the burden is with *"federal prosecutors deciding which cases to prosecute by weighing all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of federal prosecution, and the cumulative impact of particular crimes on the community." Subsequently, in April 2018, then President Trump promised to* support congressional efforts to protect states that have legalized the cultivation, sale and possession of cannabis; however, a bill has not yet been finalized in order to implement legislation that would, in effect, make clear the federal government cannot interfere with states that have voted to legalize cannabis. Further in December 2018, the US Congress passed legislation, which the President signed on December 20, 2018, removing hemp from being included with Cannabis in Schedule I of the Act.

On February 8, 2018 the Canadian Securities Administrators (the "CSA") published a revised staff notice setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States ("Staff Notice 51-352"). 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 third parties involved in the U.S. cannabis industry. The Company views Staff Notice 51-352 favorably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulation of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to several other countries, including the United States. On June 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, as of the time of the filing of this Annual Report on Form 10-K, several states in the United States have declared states of emergency, and several countries around the world, including the United States, have taken steps to restrict travel. The existence of a worldwide pandemic, the fear associated with COVID-19, or any, pandemic, and the reactions of governments in response to COVID-19, or any, pandemic, to regulate the flow of labor and products and impede the travel of personnel, may impact our ability to conduct normal business operations, which could adversely affect our results of operations and liquidity. Disruptions to our supply chain and business operations disruptions to our retail operations and our ability to collect rent from the properties which we own, personnel absences, or restrictions on the shipment of our or our suppliers' or customers' products, any of which could have adverse ripple effects throughout our business. If we need to close any of our facilities or a critical number of our employees become too ill to work, our production ability could be materially adversely affected in a rapid manner. Similarly, if our customers experience adverse consequences due to COVID-19, or any other, pandemic, demand for our products could also be materially adversely affected in a rapid manner. Global health concerns, such as COVID-19, could also result in social, economic, and labor instability in the markets in which we operate. Any of these uncertainties could have a material adverse effect on our business, financial condition or results of operations.

On December 14, 2020, former President Trump announced that William Barr would be resigning from his post as Attorney General, effective December 23, 2020. Merrick Garland, President Biden's nominee to succeed Mr. Barr, has served as the current Attorney General since March 2021. It is unclear what specific impact the Biden administration will have on reinstituting the prior U.S. federal government enforcement policy directives promulgated under former President Obama that eased federal enforcement. 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 cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law.

The sheer size of the cannabis industry, in addition to various level of legalization at the State and local governments, suggests that a largescale enforcement operation would possibly create unwanted political backlash for the Department of Justice ("DOJ") and the Biden administration. Moreover, State and local tax revenues generated by the cannabis business is an increasingly important source of funding for State and local government programs.

These conditions raise substantial doubt as to the Company's ability to continue as a going concern. Should the United States Federal Government choose to begin enforcement of the provisions under the Act, the Company through its wholly owned subsidiaries could be prosecuted under the Act and the Company may have to immediately cease operations and/or be liquidated upon their closing of the acquisition or investment in entities that engage directly in the production and or sale of cannabis.

Management believes that the Company has access to capital resources through potential public or private issuances of debt or equity securities. However, if the Company is unable to raise additional capital, it may be required to curtail operations and take additional measures to reduce costs, including reducing its workforce, eliminating outside consultants, and reducing legal fees to conserve its cash in amounts sufficient to sustain operations and meet its obligations. These matters raise substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might become necessary should the Company be unable to continue as a going concern.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with revenue recognition, investments, intangible assets, stock-based compensation, and business combinations.

The Company's financial position, results of operations and cash flows are impacted by the accounting policies the Company has adopted. In order to get a full understanding of the Company's financial statements, one must have a clear understanding of the accounting policies employed. A summary of the Company's critical accounting policies follows:

Impairment of Long-Lived Assets

The Company reviews the carrying value of its long-lived assets, which include property and equipment, for indicators of impairment whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable. The Company considers the following to be some examples of important indicators that may trigger an impairment review: (i) significant under-performance or losses of assets relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of assets or in the Company's overall strategy with respect to the manner or use of the acquired assets or changes in the Company's overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company's stock price for a sustained period of time; and (vi) regulatory changes. The Company evaluates assets for potential impairment indicators at least annually and more frequently upon the occurrence of such events. The Company does not test for impairment in the year of acquisition of properties, as long as those properties are acquired from unrelated third parties.

The Company assesses the recoverability of its long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of long-lived assets over their remaining estimated useful lives against their respective carrying amounts. In cases where estimated future net undiscounted cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset or asset group. Fair value is generally determined using the assets expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated and amortized prospectively over the newly determined remaining estimated useful lives.

An impairment expense of $52.5 million was recorded in the year ended September 30, 2021. During the year ended September 30, 2020, the Company determined that no impairment was required as of that date.

Capitalization of Project Costs

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

Equity Method Investments

Investments in unconsolidated affiliates are accounted for under the equity method of accounting, as appropriate. The Company accounts for investments in limited partnerships or limited liability corporations, whereby the Company owns a minimum of 5.0% of the investee's outstanding voting stock, under the equity method of accounting. These investments are recorded at the amount of the Company's investment and adjusted each period for the Company's share of the investee's income or loss, and dividends paid.

During the years ended September 30, 2021, and 2020, the Company recognized its share of investee losses of approximately $234 thousand and 253 thousand, respectively. The losses related to its investment in the year ended September 30, 2021, in Community Growth Partners Holdings, Inc. ("CGP") was approximately $233 thousand and Tilstar Medical, LLC ("TIL") of approximately $1 thousand. The losses related to its investment in the year ended September 30, 2020, in East Coast Packers LLC ("ECP") was approximately $240 thousand and Tilstar Medical, LLC ("TIL") of approximately $13 thousand.

Asset Acquisitions

The Company has adopted ASU 2017-01, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as businesses acquisitions. As a result of adopting ASU 2017-01, acquisitions of real estate and cannabis licenses do not meet the definition of a business combination and were deemed asset acquisitions, and the Company therefore capitalized these acquisitions, including its costs associated with these acquisitions.

Goodwill and Intangible Assets

Goodwill. Goodwill represents the excess acquisition cost over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized and is subject to annual impairment testing on or between annual tests if an event or change in circumstance occurs that would more likely than not reduce the fair value of a reporting unit below its carrying value. In testing for goodwill impairment, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. If the Company concludes otherwise, the Company is required to perform the two-step impairment test. The goodwill impairment test is performed at the reporting unit level by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not impaired. If the estimated fair value is less than the carrying value, further analysis is necessary to determine the amount of impairment, if any, by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the reporting unit's goodwill.

Intangible Assets. Intangible assets deemed to have finite lives are amortized on a straight-line basis over their estimated useful lives, where the useful life is the period over which the asset is expected to contribute directly, or indirectly, to our future cash flows. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, impairment exists when the carrying amount of the intangible asset exceeds its fair value. At least annually, the remaining useful life is evaluated.

An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Impairment exists when the carrying amount exceeds its fair value. In testing for impairment, the Company has the option to first perform a qualitative assessment to determine whether it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If the Company concludes otherwise, it is required to perform a quantitative impairment test. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset that is amortized over the remaining useful life of that asset, if any. Subsequent reversal of impairment losses is not permitted.

During the year ended September 30, 2021, and 2020, the Company determined that there were $52.5 million and $0 losses related to the impairment of related to intangible, respectively.

Business Combinations

The Company applies the provisions of ASC 805 in the accounting for acquisitions. ASC 805 requires the Company to recognize separately from goodwill the assets acquired, and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions to accurately apply preliminary value to assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments in the current period, rather than a revision to a prior period. Upon the conclusion of the measurement period or final determination of the values of the assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the consolidated statements of operations. Accounting for business combinations requires management to make significant estimates and assumptions, especially at the acquisition date, including estimates for intangible assets, contractual obligations assumed, restructuring liabilities, pre-acquisition contingencies, and contingent consideration, where applicable. Although the Company believes the assumptions and estimates made have been reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired companies and are inherently uncertain. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates, or actual results.

Contingent Consideration

The Company accounts for "contingent consideration" according to FASB ASC 805, "Business Combinations" ("FASB ASC 805"). Contingent consideration typically represents the acquirer's obligation to transfer additional assets or equity interests to the former owners of the acquiree if specified future events occur or conditions are met. FASB ASC 805 requires that contingent consideration be recognized at the acquisition-date fair value as part of the consideration transferred in the transaction. FASB ASC 805 uses the fair value definition in Fair Value Measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As defined in FASB ASC 805, contingent consideration is (i) an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree, if specified future events occur or conditions are met or (ii) the right of the acquirer to the return of previously transferred consideration if specified conditions are met.

Warrant Liability

The Company accounts for certain common stock warrants outstanding as a liability at fair value and adjusts the instruments to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's consolidated statements of operations. The fair value of the warrants issued by the Company has been estimated using a Black Scholes model.

Embedded Conversion Features

The Company evaluates embedded conversion features within convertible debt to determine whether the embedded conversion feature(s) should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in the statement of operations. If the conversion feature does not require recognition of a bifurcated derivative, the convertible debt instrument is evaluated for consideration of any beneficial conversion feature ("BCF") requiring separate recognition. When the Company records a BCF, the intrinsic value of the BCF is recorded as a debt discount against the face amount of the respective debt instrument (offset to additional paid-in capital) and amortized to interest expense over the life of the debt.

Income Taxes

The provision for income taxes is determined in accordance with ASC 740, "Income Taxes". The Company files a consolidated United States federal income tax return. The Company provides for income taxes based on enacted tax law and statutory tax rates at which items of income and expense are expected to be settled in our income tax return. Certain items of revenue and expense are reported for Federal income tax purposes in different periods than for financial reporting purposes, thereby resulting in deferred income taxes. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company has incurred net operating losses for financial-reporting and tax-reporting purposes. As of September 30, 2021, and 2020, such net operating losses were offset entirely by a valuation allowance.

The Company recognizes uncertain tax positions based on a benefit recognition model. Provided that the tax position is deemed more likely than not of being sustained, the Company recognizes the largest amount of tax benefit that is greater than 50.0% likely of being ultimately realized upon settlement. The tax position is derecognized when it is no longer more likely than not of being sustained. The Company classifies income tax related interest and penalties as interest expense and selling, general and administrative expense, respectively, on the consolidated statements of operations.

In December 2017, the Tax Cuts and Jobs Act (TCJA or the Act) was enacted, which significantly changes U.S. tax law. In accordance with ASC 740, "Income Taxes", the Company is required to account for the new requirements in the period that includes the date of enactment. The Act reduced the overall corporate income tax rate to 21.0%, created a territorial tax system (with a one-time mandatory transition tax on previously deferred foreign earnings), broadened the tax base and allowed for the immediate capital expensing of certain qualified property.

In December 2020, the Company issued a significant number of new shares in its acquisition of Driven Deliveries (see Note 10). The effect of these issuances is most likely, the Company and Driven have experienced the requisite change of control as promulgated under the US Internal Revenue Code section 382. The effect of this will be that going forward, the ability of the Company and Driven Deliveries to utilize their respective U.S. Federal net operating loss carryforwards from prior to December 29, 2020, will be limited in its usage. In order to determine the specific effect, the Company must perform the computations required under the Internal Revenue Code, which have not yet been performed. The Company expects it will perform the required computations in the coming fiscal year.

Revenue Recognition

The Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers (Topic 606), the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Revenue for the Company’s product sales has not been adjusted for the effects of a financing component as the Company expects, at contract inception, that the period between when the Company’s transfers control of the product and when the Company receives payment will be one year or less. Product shipping and handling costs are included in cost of product sales.

Effective October 1, 2019, the Company adopted the requirements of ASU 2014-09 (ASC 606) and related amendments, using the modified retrospective method. The adoption of ASC 606 did not have a significant impact on the Company’s revenue recognition policy as revenues related to wholesale and retail revenue are recorded upon transfer of merchandise to the customer, which was the effective policy under ASC 605 previously.

The following policies reflect specific criteria for the various revenue streams of the Company:

Cannabis Dispensary, Cultivation and Production

Revenue is recognized upon transfer of retail merchandise to the customer upon sale transaction, at which time its performance obligation is complete. Revenue is recognized upon delivery of product to the wholesale customer, at which time the Company’s performance obligation is complete. Terms are generally between cash on delivery to 30 days for the Company’s wholesale customers.

The Company’s sales environment is somewhat unique, in that once the product is sold to the customer (retail) or delivered (wholesale) there are essentially no returns allowed or warranty available to the customer under the various state laws.

Delivery

1) *Identify the contract with a customer*

The Company sells retail products directly to customers. In these sales there is no formal contract with the customer. These sales have commercial substance and there are no issues with collectability as the customer pays the cost of the goods at the time of purchase or delivery.

2) *Identify the performance obligations in the contract*

The Company sells its products directly to consumers. In this case these sales represent a performance obligation with the sales and any necessary deliveries of those products.

3) *Determine the transaction price*

The sales that are done directly to the customer have no variable consideration or financing component. The transaction price is the cost that those goods are being sold for plus any additional delivery costs.

4) *Allocate the transaction price to performance obligations in the contract*

For the goods that the Company sells directly to customers, the transaction price is allocated between the cost of the goods and any delivery fees that may be incurred to deliver to the customer.

5) *Recognize revenue when or as the Company satisfies a performance obligation*

For the sales of the Company's own goods the performance obligation is complete once the customer has received the product.

Leases

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

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

On October 1, 2020, the Company adopted ASC 842 and elected to apply the new standard at the adoption date and recognize a cumulative effect as an adjustment to retained earnings. Upon calculation the effect on retained earnings was immaterial and no adjustment was deemed necessary. Leases with an initial term of twelve months or less are not recorded on the balance sheet. For lease agreements entered into or reassessed after the adoption of Topic 842, we combine the lease and non-lease components in determining the lease liabilities and right of use ("ROU") assets.

Our lease agreements generally do not provide an implicit borrowing rate; therefore, an internal incremental borrowing rate is determined based on information available at lease commencement date for purposes of determining the present value of lease payments. We used the incremental borrowing rate on September 30, 2021, for all leases that commenced prior to that date. In determining this rate, which is used to determine the present value of future lease payments, we estimate the rate of interest we would pay on a collateralized basis, with similar payment terms as the lease and in a similar economic environment.

Under Topic 842, operating lease expense is generally recognized evenly over the term of the lease. Lease costs were $839 thousand and $927 thousand for the years ended September 30, 2021, and 2020, respectively. There was sublease rental income of $17 thousand and $35 thousand, respectively for the years ended September 30, 2021, and 2020. The Company has thirteen operating leases consisting with remaining lease terms ranging from 23 months to 180 months.

Lease Costs

	Year Ended September 30, 2021
Components of total lease costs:	
Operating lease expense	$ 839
Total lease costs	$ 839

Lease positions as of September 30, 2021

ROU lease assets and lease liabilities for our operating leases were recorded in the consolidated condensed balance sheet as follows:

		September 30, 2021
Assets		
Right of use asset	$	4,562
Total assets	$	4,562
Liabilities		
Operating lease liabilities – short term	$	685
Operating lease liabilities – long term		3,963
Total lease liability	$	4,648

Lease Terms and Discount Rate

Weighted average remaining lease term (in years) – operating lease	9
Weighted average discount rate – operating lease	12.18%

Cash Flows

		Year Ended September 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
ROU amortization	$	839
Cash paydowns of operating liability	$	(839)
Supplemental non-cash amounts of lease liabilities arising from obtaining:		
ROU asset	$	4,562
Lease Liability	$	4,648

The future minimum lease payments under the leases are as follows:

2022	$	1,228
2023		1,088
2024		797
2025		687
2026		653
Thereafter		4,676
Total future minimum lease payments		9,129
Less: Lease imputed interest		(4,481)
Total	$	4,648

Disaggregation of Revenue

In the year ended September 30, 2020, and 2021, revenue reported was primarily from the sale of cannabis and related products accounted for under ASC 606.

The following table illustrates our revenue by type related to the years ended September 30, 2021, and 2020:

	September 30,	
	2021	2020
Revenue		
Wholesale	$ 5,270	$ 3,832
Retail	35,805	12,389
Rental	17	35
Other	692	115
Total revenue	41,784	16,371
Discounts and returns	(6,015)	(2,397)
Net Revenue	$ 35,769	$ 13,974

Geographical Concentrations

As of September 30, 2021, the Company is primarily engaged in the production and sale of cannabis, which is only legal for recreational use in 15 states and D.C., with lesser legalization, such as for medical use in an additional 21 states and D.C., as of the time of these consolidated financial statements. In addition, the United States Congress has passed legislation, specifically the Agriculture Improvement Act of 2018 (also known as the "Farm Bill") that has removed production and consumption of hemp and associated products from Schedule 1 of the Controlled Substances Act.

Cost of Goods Sold

Cost of sales represents costs directly related to manufacturing and distribution of the Company's products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling and the depreciation of manufacturing equipment and production facilities. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance, and property taxes. The Company recognizes the cost of sales as the associated revenues are recognized.

Fair Value of Financial Instruments

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

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

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

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

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

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

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

Stock-based Compensation

The Company accounts for share-based payment awards exchanged for services at the estimated grant date fair value of the award. Stock options issued under the Company’s long-term incentive plans are granted with an exercise price equal to no less than the market price of the Company’s stock at the date of grant and expire up to ten years from the date of grant. These options generally vest on the grant date or over a one-year period.

The Company estimates the fair value of stock option grants using the Black-Scholes option pricing model and the assumptions used in calculating the fair value of stock-based awards represent management’s best estimates and involve inherent uncertainties and the application of management’s judgment.

Expected Term - The expected term of options represents the period that the Company’s stock-based awards are expected to be outstanding based on the simplified method, which is the half-life from vesting to the end of its contractual term.

Expected Volatility - The Company computes stock price volatility over expected terms based on its historical common stock trading prices.

Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield available on U. S. Treasury zero-coupon issues with an equivalent remaining term.

Expected Dividend - The Company has never declared or paid any cash dividends on its common shares and does not plan to pay cash dividends in the foreseeable future, and, therefore, uses an expected dividend yield of zero in its valuation models.

Effective January 1, 2017, the Company elected to account for forfeited awards as they occur, as permitted by Accounting Standards Update (“ASU”) 2016-09. Ultimately, the actual expenses recognized over the vesting period will be for those shares that vested. Prior to making this election, the Company estimated a forfeiture rate for awards at 0%, as the Company did not have a significant history of forfeitures.

Earnings (Loss) per Share

ASC 260, Earnings Per Share, requires dual presentation of basic and diluted earnings per share ("EPS") with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Basic net loss per share of common stock excludes dilution and is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share of common stock reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity unless inclusion of such shares would be anti-dilutive. Since the Company has only incurred losses, basic and diluted net loss per share is the same. Securities that could potentially dilute loss per share in the future that were not included in the computation of diluted loss per share as of September 30, 2021, and 2020 are as follows:

Potentially dilutive share-based instruments:	2021	2020
Convertible notes	3,696,311	5,763,210
Options to purchase common stock	7,140,447	5,572,916
Unvested restricted stock awards	-	2,471,317
Warrants to purchase common stock	62,965,833	5,053,078
	73,802,591	18,860,521

Advertising Costs

The Company follows the policy of charging the cost of advertising to expense as incurred. Advertising expense was $1 million and $66,000 for the year ended September 30, 2021, and 2020, respectively.

Related parties

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

Segment reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision–making group in deciding how to allocate resources and in assessing performance. The Company's chief operating decision–maker is its chief executive officer. The Company currently operates in one segment.

Recently issued and adopted accounting pronouncements

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350)—Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the accounting for goodwill impairments by eliminating the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test referenced in Accounting Standards Codification ("ASC") 350, Intangibles - Goodwill and Other ("ASC 350"). As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2019. The adoption of this standard did not have a material impact on the Company's consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”). ASU 2018-13 removes, modifies and adds certain disclosure requirements in Topic 820 “Fair Value Measurement”. ASU 2018-13 eliminates certain disclosures related to transfers and the valuations process, modifies disclosures for investments that are valued based on net asset value, clarifies the measurement uncertainty disclosure, and requires additional disclosures for Level 3 fair value measurements. ASU 2018-13 is effective for the Company for annual and interim reporting periods beginning January 1, 2020. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of one year or less) on their balance sheets. Lessees will continue to recognize lease expense in a manner similar to current accounting. For lessors, accounting for leases under the new guidance is substantially the same as in prior periods but eliminates current real estate-specific provisions and changes the treatment of initial direct costs. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparable period presented, with an option to elect certain transition relief. Full retrospective application is prohibited. The standard was adopted as of October 1, 2020. As of September 30, 2021, the Company recognized additional operating liabilities of approximately $4.6 million, with corresponding ROU assets of approximately $4.6 million.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 provides guidance for recognizing credit losses on financial instruments based on an estimate of current expected credit losses model. The amendments are effective for fiscal years beginning after December 15, 2019. Recently, the FASB issued the final ASU to delay adoption for smaller reporting companies to calendar year 2023. The Company is currently assessing the impact of the adoption of this ASU on its financial statements.

In January 2020, the FASB issued ASU 2020-01, Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivative and Hedging (Topic 815), which clarifies the interaction of rules for equity securities, the equity method of accounting, and forward contracts and purchase options on certain types of securities. The guidance clarifies how to account for the transition into and out of the equity method of accounting when considering observable transactions under the measurement alternative. The ASU is effective for annual reporting periods beginning after December 15, 2020, including interim reporting periods within those annual periods, with early adoption permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. This ASU amends the guidance on convertible instruments and the derivatives scope exception for contracts in an entity’s own equity, and also improves and amends the related EPS guidance for both Subtopics. The ASU will be effective for annual reporting periods beginning after December 15, 2021 and interim periods within those annual periods and early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

TABLE OF CONTENTS FOR FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of Stem Holdings, Inc. and subsidiaries (the "Company") as of September 30, 2021 and September 30, 2020, the related consolidated statements of operations, stockholders' equity and cash flows for each of the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2021 and September 30, 2020, and the results of its operations and its cash flows for the each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

EXPLANATORY PARAGRAPH – GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully explained in Note 1, the Company, and its affiliates, had net losses of $64.4 million and $11.5 million, negative working capital of $2.954 million and $9.235 million and accumulated deficits of $115.750 million and $51.386 million as of and for the year ended September 30, 2021 and 2020, respectively. In addition, the Company has commenced operations in the production and sale of cannabis and related products, an activity that is illegal under United States Federal law for any purpose, by way of Title II of the Comprehensive Drug Abuse Prevention and Control Act of 1970, otherwise known as the Controlled Substances Act of 1970 (the "ACT"). These facts raise substantial doubt as to the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

EXPLANATORY PARAGRAPH – CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 2 to the consolidated financial statements, the Company has adopted the new lease accounting principle under ASC 842 – Leases.

BASIS FOR OPINION

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ LJ Soldinger Associates, LLC

We have served as the Company's auditor since 2017.

Deer Park, IL
January 13, 2022

STEM HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands except for share and per share amounts)

	September 30, 2021	September 30, 2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,570	$ 2,129
Accounts receivable, net of allowance for doubtful accounts	260	455
Note receivable	430	434
Inventory	3,509	1,795
Prepaid expenses and other current assets	3,074	452
Total current assets	12,843	5,265
Property and equipment, net	12,610	16,354
Investment in equity method investees	1,008	767
Investments in affiliates	230	1,718
Deposits and other assets	13	13
Note receivable, long term	-	355
Right of use asset	4,562	-
Intangible assets, net	18,465	13,269
Goodwill	7,429	7,221
Due from related party	28	55
Total assets	**$ 57,188**	**$ 45,017**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	8,514	2,983
Convertible notes, net	2,940	5,306
Convertible notes, net related party	223	-
Short term notes and advances	657	3,425
Settlement payable	92	-
Acquisition notes payable	409	665
Contingent acquisition liability	-	1,072
Due to related party	1	200
Derivative liability	-	592
Lease liability	685	-
Warrant liability	2,277	257
Total current liabilities	**15,798**	**14,500**
Lease liability - long term	3,963	-
Finance liability	1,093	-
Long-term debt, mortgages	2,100	3,685
Total liabilities	**22,954**	**18,185**
Commitments and contingencies (Note 17)	-	-
Shareholders' equity		
Preferred stock, Series A; $0.001 par value; 50,000,000 shares authorized, none outstanding as of September 30, 2021 and September 30, 2020	-	-
Preferred stock, Series B; $0.001 par value; 50,000,000 shares authorized, none outstanding as of September 30, 2021 and September 30, 2020	-	-
Common stock, $0.001 par value; 750,000,000 shares authorized; 230,738,620 and 68,258,745 shares issued, issuable and outstanding as of September 30, 2021 and September 30, 2020, respectively	230	68
Additional paid-in capital	148,249	76,310
Stock subscription receivable	(135)	-
Accumulated deficit	(115,750)	(51,386)

Total Stem Holdings stockholder’s equity	**32,594**	**24,992**
Noncontrolling interest	1,640	1,840
Total shareholders’ equity	34,234	26,832
Total liabilities and shareholders’ equity	**$ 57,188**	**$ 45,017**

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

STEM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended September 30, 2021 and 2020
(in thousands except for share and per share amounts)

	For the Years Ended September 30,	
	2021	**2020**
Revenues	$ 35,769	$ 13,974
Cost of goods sold	28,183	10,306
Gross Profit	7,586	3,668
Operating expenses:		
Consulting fees	2,978	2,546
Professional fees	3,537	2,526
General and administration	16,445	8,262
Impairment of intangible assets	52,490	-
Total operating expenses	75,450	13,334
Loss from operations	**(67,864)**	**(9,666)**
Other income (expenses), net		
Interest expense	(1,881)	(2,434)
Change in fair value of derivative liability	577	(190)
Change in fair value of warrant liability	2,401	1,065
Foreign currency exchange gain (loss)	91	(15)
Other income	2,304	-
Total other income (expense)	3,492	(1,574)
Loss from equity method investees	(234)	(253)
Net loss	**$ (64,606)**	**$ (11,493)**
Net loss attributable to non-controlling interest	**242**	**492**
Net loss attributable to Stem Holdings	**$ (64,364)**	**$ (11,002)**
Net loss per share, basic and diluted	$ (0.40)	$ (0.18)
Weighted-average shares outstanding, basic and diluted	159,305,442	60,143,056

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

STEM HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended September 30, 2021 and 2020
(in thousands, except for share and per share amounts)

	Common Stock														
	Shares		Amount		Additional Paid-in Capital		Subscription Receivable		Accumulated Deficit		Total Stem Holdings Shareholders' Equity		Non-Controlling Interest		Total Shareholders' Equity
Balance as of September 30, 2019	**52,254,941**	**$**	**52**	**$**	**61,202**	**$**	**-**	**$**	**(40,384)**	**$**	**20,870**	**$**	**2,724**	**$**	**23,594**
Issuance of common stock in connection with asset acquisitions	12,480,040		13		9,921		-		-		9,934		-		9,934
Issuance of common stock in connection with consulting agreement	1,162,916		1		925		-		-		926		-		926
Cancellation of common stock in connection with stock purchase agreements	(700,000)		(1)		-		-		-		(1)		-		(1)
Issuance of common stock in connection with cash	845,238		1		449		-		-		450		-		450
Stock based compensation	472,506		-		165		-		-		165		-		165
Issuance of common stock related to interest on convertible notes	703,809		1		291		-		-		292		-		292
Issuance of common stock related to conversion of convertible notes	228,260		-		196		-		-		196		-		196
Issuance of common stock related to purchase of minority interest	425,000		1		-		-		-		1		-		1
Issuance of options in connection with consulting agreement	-		-		904		-		-		904		-		904
Issuance of options in connection with employment agreement	-		-		77		-		-		77		-		77
Repricing of warrants in association with promissory notes and consulting agreements	-		-		81		-		-		81		-		81
Issuance of common stock in connection with share exchange agreement	386,035		-		196		-		-		196		(392)		(196)
Consolidated Ventures of Oregon equity	-		-		1,818		-		-		1,818		-		1,818
Other	-		-		85		-		-		85		-		85
Net loss	-		-		-		-		(11,002)		(11,002)		(492)		(11,494)
Balance as of September 30, 2020	**68,258,745**	**$**	**68**	**$**	**76,310**	**$**	**-**	**$**	**(51,386)**	**$**	**24,992**	**$**	**1,840**	**$**	**26,832**
Issuance of common stock in connection with consulting agreement	4,790,070		5		2,027		-		-		2,032		-		2,032
Issuance of common stock in related to commission expense	90,909		1		40		-		-		41		-		41
Issuance of common stock pursuant to Driven Deliveries, Inc. S1 registration	6,833,069		7		2,863		-		-		2,870		-		2,870
Stock based compensation	3,914,509		4		1,671		-		-		1,675		-		1,675
Issuance of common stock in connection with convertible debt	9,480,259		10		4,903		-		-		4,913		-		4,913
Issuance of common stock in connection with deposit for an asset acquisition	300,000		-		2,582		-		-		2,582		-		2,582
Cancellation of common stock related to convertible notes	(525,400)		(1)		1		-		-		-		-		-
Issuance of common stock related to rent and interest expense	847,117		1		426		-		-		427		-		427
Issuance of subscription receivable	-		-		600		-		-		600		-		600
Cancellation of common stock related to investments	(694,233)		(1)		1		-		-		-		-		-
Issuance of common stock related to settlement payment	500,000		1		5,439		-		-		5,440		-		5,440
Issuance of common stock related to Private Placement Memorandum, net	5,322,136		5		4,892		-		-		4,897		-		4,897
Issuance of common stock related to Prospectus	19,276,340		19		7,900		-		-		7,919		-		7,919
Issuance of common stock related to cash purchase	1,465,117		1		629		-		-		630		-		630
Issuance of common stock related to exercise of options	10,000		0		1		-		-		1		-		1
Issuance of warrants in connection with employment agreement	-		-		238		-		-		238		-		238
Issuance of options in connection with employment agreement	-		-		406		-		-		406		-		406
Recognition of non-controlling interest related to asset acquisition	-		-		-		-		-		-		42		42
Cancellation of common stock in connection with Subscription Agreement	(58,140)		-		-		-		-		-		-		-
Issuance of common stock in connection with asset acquisitions	8,209,178		8		-		-		-		8		-		8
Acquisition of Driven Deliveries, Inc. and adjustments	101,968,944		102		37,320		(135)		-		37,287		-		37,287
Net loss	-		-		-		-		(64,364)		(64,364)		(242)		(64,606)
Balance as of September 30, 2021	**229,988,620**	**$**	**230**	**$**	**148,249**	**$**	**(135)**	**$**	**(115,750)**	**$**	**32,594**	**$**	**1,640**	**$**	**34,234**

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

STEM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2021 and 2020
(in thousands)

	For the Years Ended September 30, 2021	2020
Cash flows from operating activities		
Net loss	$ (64,606)	$ (11,493)
Equity method investee losses	234	253
Net loss before equity method investment	(64,372)	(11,240)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	2,082	2,073
Issuance of common stock in connection with consulting agreements	2,270	-
Issuance of common stock related to rent and interest expense	427	-
Impairment of intangible assets	51,598	
Depreciation and amortization	1,930	2,366
Amortization of intangible assets	3,460	-
Amortization of debt discount	615	1,448
Impairment of note receivable	560	-
Gain on sale of equity method investments	(52)	-
Change in fair value of derivative liability	(577)	190
Change in fair value of warrant liability	(2,401)	(1,065)
Foreign currency translation adjustment	91	(15)
Gain on sale of property	(766)	-
Other	288	-
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	294	316
Prepaid expenses and other current assets	(1,424)	(331)
Inventory	(1,290)	(531)
Other assets	-	66
Accounts payable and accrued expenses	(1,906)	1,695
Net cash used in operating activities	(9,173)	(5,028)
Cash flows from investing activities		
Purchase of property and equipment	(577)	(471)
Return of cash for equity investment	-	229
Cash acquired in acquisition, net of cash transferred	-	81
Related party advances received	-	540
Project costs	(179)	-
Funding of joint venture note receivable	-	(1,266)
Cash received related to sale of property	1,514	-
Cash acquired upon consolidation of Consolidated Ventures of Oregon	-	202
Advances received prior to acquisition	-	150
Issuances of notes receivable	(560)	-
Net cash provided by (used in) investing activities	198	(535)
Cash flows from financing activities		
Proceeds from the issuance of common stock	15,746	450
Proceeds from notes payable and advances	-	2,436
Proceeds from mortgages, net of fees paid	-	2,219
Payments for loan fees	-	(41)
PPP and Debt Forgiveness	(1,031)	-
Debt conversions	(100)	-
Repayments of notes payable	(2,199)	(711)
Net cash provided by financing activities	12,416	4,353
Net (decrease) increase in cash and cash equivalents	3,441	(1,210)
Cash and cash equivalents at the beginning of the period	2,129	3,339
Cash and cash equivalents at the end of the period	**$ 5,570**	**$ 2,129**

Supplemental disclosure of cash flow information:				
Cash paid for interest	$	1,151	$	465
Cash paid for taxes	$	-	$	-
Supplemental disclosure of noncash activities:				
Financed Insurance	$	598	$	547
Issuance of common stock related to separation agreement	$	290	$	-
Interest paid in the form of common stock	$	218	$	196
Conversion of debt and accrued interest to equity	$	4,913	$	-
Issuance of common stock for settlement	$	5,440	$	-
Non-cash fees in connection with mortgage re-finance	$	-	$	272
Conversion of Note Receivable into equity method investment	$	-	$	481
Acquisition of Driven Deliveries, Inc.	$	40,447	$	-
Acquisition of 7LV, Inc.	$	-	$	12,714
Acquisition of JV Retail 3 and JV Retail 4	$	1,323	$	-
Acquisition of Artifact	$	1,058	$	-
Building acquired from related party with equity, net of lien acquired	$	-	$	394
Refinancing of mortgage	$	1,100	$	-
Consolidation of CVO	$	-	$	1,818
Conversion of debt to equity	$	-	$	291
Acquisition of NVDRE interest	$	-	$	386

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

STEM HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Incorporation and Operations and Going Concern

Stem Holdings, Inc. (“Stem” or the “Company”) is a Nevada corporation incorporated on June 7, 2016, and is a leading omnichannel, vertically-integrated cannabis branded products and technology company with state-of-the-art cultivation, processing, extraction, retail, distribution, and delivery-as-a-service (DaaS) operations throughout the United States. Stem’s family of award-winning brands includes TJ’s Gardens™, TravisxJames™, and Yerba Buena™ flower and extracts; Cannavore™ edible confections; Doseology™, a CBD mass-market brand launching in 2021; as well as DaaS brands Budee™ and Ganjarunner™ through the acquisition of Driven Deliveries, subsequently divested (see Note 10). Budee™ and Ganjarunner™ e-commerce platforms provide direct-to consumer proprietary logistics and an omnichannel UX (user experience)/CX (customer experience).

The Company purchases, improves, leases, operates, and invests in properties for use in the production, distribution and sales of cannabis and cannabis-infused products licensed under the laws of the states of Oregon, Nevada, California, Massachusetts, New York, and Michigan. As of September 30, 2021, Stem had ownership interests in 29 state issued cannabis licenses including nine (9) licenses for cannabis cultivation, three (3) licenses for cannabis processing, two (2) licenses for cannabis wholesale distribution, three (3) licenses for hemp production, five (5) adult-use medical retailers (non-storefront) which were subsequently divested and seven (7) cannabis dispensary licenses.

The Company has ten wholly-owned subsidiaries, including Driven Deliveries, Inc., subsequently divested (see Note 10), Stem Holdings Oregon, Inc., Stem Holdings IP, Inc., Opco, LLC, Stem Agri, Inc., Stem Holdings Oregon Acquisitions 1, Corp., Stem Holdings Oregon Acquisitions 2, Corp., Stem Holdings Oregon Acquisitions 3, Corp., Stem Holdings Oregon Acquisitions 4 Corp., 2336034 Alberta Ltd., Stem, through its subsidiaries, is currently in the process of finalizing the investment in and acquisition of entities that engage directly in the production and sale of cannabis.

With the acquisition of Driven, the Company became an omni-channel retailer, utilizing Driven’s proprietary logistics and user experience/customer experience (“**UX/CX**”) technologies. The Company is able to offer its customers in California: (i) an “Express” delivery with a limited product selection that is usually delivered within 60 minutes or less; and (ii) a “Next Day” scheduled delivery from a larger selection of 500+ products from a Company-operated fulfillment center, Stem subsequently fully divested its interest in Driven (see Note 10).

The Company’s stock is publicly traded and is listed on the Canadian Securities Exchange under the symbol “STEM” and the OTCQX exchange under the symbol “STMH”.

In June 2021, the Company’s shareholders approved a proposal to amend the Company’s Articles of Incorporation to increase the number of authorized common shares from 300,000,000 shares to 750,000,000 shares.

Going Concern

On September 30, 2021, the Company had approximate balances of cash and cash equivalents of $5.6 million, negative working capital of approximately $3 million, and an accumulated deficit of $116 million.

These audited consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

While the recreational use of cannabis is legal under the laws of certain States, where the Company has and is working towards further finalizing the acquisition of entities or investment in entities that directly produce or sell cannabis, the use and possession of cannabis is illegal under United States Federal Law for any purpose, by way of Title II of the Comprehensive Drug Abuse Prevention and Control Act of 1970, otherwise known as the Controlled Substances Act of 1970 (the "ACT"). Cannabis is currently included under Schedule 1 of the Act, making it illegal to cultivate, sell or otherwise possess in the United States.

On January 4, 2018, the office of the Attorney General published a memo regarding cannabis enforcement that rescinds directives promulgated under former President Obama that eased federal enforcement. In a January 8, 2018 memo, Jefferson B. Sessions, then Attorney General of the United States, indicated enforcement decisions will be left up to the U.S. Attorney's in their respective states clearly indicating that the burden is with ***"federal prosecutors deciding which cases to prosecute by weighing all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of federal prosecution, and the cumulative impact of particular crimes on the community." Subsequently, in April 2018, former President Trump promised to*** support congressional efforts to protect states that have legalized the cultivation, sale and possession of cannabis; however, a bill has not yet been finalized in order to implement legislation that would, in effect, make clear the federal government cannot interfere with states that have voted to legalize cannabis. Further in December 2018, the U.S. Congress passed legislation, which the President signed on December 20, 2018, removing hemp from being included with Cannabis in Schedule I of the Act.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to several other countries, including the United States. On June 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, as of the time of the filing of this Annual Report on Form 10-K, several states in the United States have declared states of emergency, and several countries around the world, including the United States, have taken steps to restrict travel. The existence of a worldwide pandemic, the fear associated with COVID-19, or any, pandemic, and the reactions of governments in response to COVID-19, or any, pandemic, to regulate the flow of labor and products and impede the travel of personnel, may impact our ability to conduct normal business operations, which could adversely affect our results of operations and liquidity. Disruptions to our supply chain and business operations disruptions to our retail operations and our ability to collect rent from the properties which we own, personnel absences, or restrictions on the shipment of our or our suppliers' or customers' products, any of which could have adverse ripple effects throughout our business. If we need to close any of our facilities or a critical number of our employees become too ill to work, our production ability could be materially adversely affected in a rapid manner. Similarly, if our customers experience adverse consequences due to COVID-19, or any other, pandemic, demand for our products could also be materially adversely affected in a rapid manner. Global health concerns, such as COVID-19, could also result in social, economic, and labor instability in the markets in which we operate. Any of these uncertainties could have a material adverse effect on our business, financial condition or results of operations.

These conditions raise substantial doubt as to the Company's ability to continue as a going concern. Should the United States Federal Government choose to begin enforcement of the provisions under the "ACT", the Company through its wholly owned subsidiaries could be prosecuted under the "ACT" and the Company may have to immediately cease operations and/or be liquidated upon its closing of the acquisition or investment in entities that engage directly in the production and or sale of cannabis.

Management believes that the Company has access to capital resources through potential public or private issuances of debt or equity securities. However, if the Company is unable to raise additional capital, it may be required to curtail operations and take additional measures to reduce costs, including reducing its workforce, eliminating outside consultants, and reducing legal fees to conserve its cash in amounts sufficient to sustain operations and meet its obligations. These matters raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might become necessary should the Company be unable to continue as a going concern.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company's consolidated financial statements been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All material intercompany accounts and transactions have been eliminated during the consolidation process. The Company manages its operations as a single segment for the purposes of assessing performance and making operating decisions.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. The most significant estimates included in these consolidated financial statements are those associated with the assumptions used to value equity instruments, valuation of its long live assets for impairment testing, valuation of intangible assets, and the valuation of inventory. These estimates and assumptions are based on current facts, historical experience and various other factors believed to be reasonable given the circumstances that exist at the time the financial statements are prepared. Actual results may differ materially and adversely from these estimates. To the extent there are material differences between the estimates and actual results, the Company's future results of operations will be affected.

Reclassifications

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

Principles of Consolidation

The Company's policy is to consolidate all entities that it controls by ownership of a majority of the outstanding voting stock. In addition, the Company consolidates entities that meet the definition of a variable interest entity ("VIE") for which it is the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. For consolidated entities that are less than wholly owned, the third party's holding of equity interest is presented as noncontrolling interests in the Company's Consolidated Balance Sheets and Consolidated Statements of Changes in Stockholders' Equity. The portion of net loss attributable to the noncontrolling interests is presented as net loss attributable to noncontrolling interests in the Company's Consolidated Statements of Operations.

In August 2016, the Company and certain shareholders of the Company entered into a "Multi Party" Agreement, in which the Company became obligated to lease or acquire three separate real estate assets, and separately, if certain events occur, additional real estate assets held by entities related to those shareholders. The Agreement also gives the Company the right of first refusal in regard to certain properties owned by the persons and entities affiliated with the parties of the Agreement so long as certain targets are met. In the quarter ended June 30, 2019, the Company issued 12,500,000 shares of its common stock for the acquisition of Consolidated Ventures of Oregon, LLC ("CVO") and Opco Holdings, LLC ("Opco") which comprise the entities within the Multi Party Agreement. On September 6, 2020, the Company received the regulatory approval to transfer all the licenses held under both CVO and Opco. Subsequently, the Company has completed the acquisition and as a result, the Company is no longer engaged primarily in property rental operations but has taken over the operations of its primary renters, which is the cultivation, production and sale of cannabis and related productions. Since CVO and Opco are related to the Company, the acquisition was not accounted for as a business combination at fair value under the codification sections of ASC 805. The assets and liabilities were transferred to the Company at their historical cost and the Company has included the operations of Opco and CVO for the years ended September 30, 2021, and 2020.

The accompanying consolidated financial statements include the accounts of Stem Holdings, Inc. and its wholly owned subsidiaries, Stem Holdings Oregon, Inc., Stem Holdings IP, Inc., Opco, LLC, Stem Holdings Agri, Inc., Stem Oregon Acquisitions 2 Corp., Stem Oregon Acquisitions 3 Corp., Stem Oregon Acquisitions 4 Corp., 7LV USA Corporation, and Stem Oregon Acquisitions 1 Corp., and Driven Deliveries, Inc., which was subsequently divested. In addition, the Company has consolidated YMY Ventures, WCV, LLC and NVD RE, Inc. under the variable interest requirements.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents. The Company's cash is primarily maintained in checking accounts. These balances may, at times, exceed the U.S. Federal Deposit Insurance Corporation insurance limits. As of September 30, 2021, and 2020, the Company had no cash equivalents or short-term investments. The Company has not experienced any losses on deposits of cash and cash equivalents.

Accounts Receivable

Accounts receivable is shown on the face of the consolidated balance sheets, net of an allowance for doubtful accounts. The Company analyzes the aging of accounts receivable, historical bad debts, customer creditworthiness and current economic trends, in determining the allowance for doubtful accounts. The Company does not accrue interest receivable on past due accounts receivable. As of September 30, 2021, and 2020 the reserve for doubtful accounts was $79 and $35 thousand, respectively.

Inventory

Inventory is comprised of raw materials, finished goods and work-in-progress such as pre-harvested cannabis plants and by-products to be extracted. The costs of growing cannabis including but not limited to labor, utilities, nutrition, and irrigation, are capitalized into inventory until the time of harvest.

Inventory is stated at the lower of cost or net realizable value, determined using weighted average cost. Cost includes expenditures directly related to manufacturing and distribution of the products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and the depreciation of manufacturing equipment and production facilities determined at normal capacity. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance, and property taxes.

Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. At the end of each reporting period, the Company performs an assessment of inventory obsolescence to measure inventory at the lower of cost or net realizable value. Factors considered in the determination of obsolescence include slow-moving or non-marketable items.

Prepaid Expenses and Other Current Assets

Prepaid expenses consist of various payments that the Company has made in advance for goods or services to be received in the future. These prepaid expenses include consulting, advertising, insurance, and service or other contracts requiring up-front payments.

Property and Equipment

Property, equipment, and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Repairs and maintenance expenditures that do not extend the useful lives of related assets are expensed as incurred.

Expenditures for major renewals and improvements are capitalized, while minor replacements, maintenance, and repairs, which do not extend the asset lives, are charged to operations as incurred. Upon sale or disposition, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. The Company continually monitors events and changes in circumstances that could indicate that the carrying balances of its property, equipment and leasehold improvements may not be recoverable in accordance with the provisions of ASC 360, "Property, Plant, and Equipment." When such events or changes in circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. See "Note 3 – Property, Equipment and Leasehold Improvements".

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line method over the estimated useful lives of the assets. The Company estimates useful lives as follows:

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

Impairment of Long-Lived Assets

The Company reviews the carrying value of its long-lived assets, which include property and equipment, for indicators of impairment whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable. The Company considers the following to be some examples of important indicators that may trigger an impairment review: (i) significant under-performance or losses of assets relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of assets or in the Company's overall strategy with respect to the manner or use of the acquired assets or changes in the Company's overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company's stock price for a sustained period of time; and (vi) regulatory changes. The Company evaluates assets for potential impairment indicators at least annually and more frequently upon the occurrence of such events. The Company does not test for impairment in the year of acquisition of properties, as long as those properties are acquired from unrelated third parties.

The Company assesses the recoverability of its long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of long-lived assets over their remaining estimated useful lives against their respective carrying amounts. In cases where estimated future net undiscounted cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset or asset group. Fair value is generally determined using the assets expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated and amortized prospectively over the newly determined remaining estimated useful lives.

An impairment expense of $52.5 million was recorded in the year ended September 30, 2021. During the year ended September 30, 2020, the Company determined that no impairment was required.

Capitalization of Project Costs

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

Equity Method Investments

Investments in unconsolidated affiliates are accounted for under the equity method of accounting, as appropriate. The Company accounts for investments in limited partnerships or limited liability corporations, whereby the Company owns a minimum of 5.0% of the investee's outstanding voting stock, under the equity method of accounting. These investments are recorded at the amount of the Company's investment and adjusted each period for the Company's share of the investee's income or loss, and dividends paid.

During the years ended September 30, 2021, and 2020, the Company recognized its share of investee losses of approximately $234 thousand and $253 thousand, respectively. The losses related to its investment in the year ended September 30, 2021, in Community Growth Partners Holdings, Inc., ("CGP") was approximately $233 thousand and Tilstar Medical, LLC ("TIL") of approximately $1 thousand. The losses related to its investment in the year ended September 30, 2020 in East Coast Packers LLC ("ECP") was approximately $240 thousand and Tilstar Medical, LLC ("TIL") of approximately $13 thousand.

Asset Acquisitions

The Company has adopted ASU 2017-01, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as businesses acquisitions. As a result of adopting ASU 2017-01, acquisitions of real estate and cannabis licenses do not meet the definition of a business combination and were deemed asset acquisitions, and the Company therefore capitalized these acquisitions, including its costs associated with these acquisitions.

Goodwill and Intangible Assets

Goodwill. Goodwill represents the excess acquisition cost over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized and is subject to annual impairment testing on or between annual tests if an event or change in circumstance occurs that would more likely than not reduce the fair value of a reporting unit below its carrying value. In testing for goodwill impairment, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. If the Company concludes otherwise, the Company is required to perform the two-step impairment test. The goodwill impairment test is performed at the reporting unit level by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not impaired. If the estimated fair value is less than the carrying value, further analysis is necessary to determine the amount of impairment, if any, by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the reporting unit's goodwill.

Intangible Assets. Intangible assets deemed to have finite lives are amortized on a straight-line basis over their estimated useful lives, where the useful life is the period over which the asset is expected to contribute directly, or indirectly, to our future cash flows. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, impairment exists when the carrying amount of the intangible asset exceeds its fair value. At least annually, the remaining useful life is evaluated.

An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Impairment exists when the carrying amount exceeds its fair value. In testing for impairment, the Company has the option to first perform a qualitative assessment to determine whether it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If the Company concludes otherwise, it is required to perform a quantitative impairment test. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset that is amortized over the remaining useful life of that asset, if any. Subsequent reversal of impairment losses is not permitted.

During the year ended September 30, 2021, and 2020, the Company determined that there were $52.5 million and $0 losses related to the impairment of goodwill and intangible assets, respectively.

Business Combinations

The Company applies the provisions of ASC 805 in the accounting for acquisitions. ASC 805 requires the Company to recognize separately from goodwill the assets acquired, and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions to accurately apply preliminary value to assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments in the current period, rather than a revision to a prior period. Upon the conclusion of the measurement period or final determination of the values of the assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the consolidated statements of operations. Accounting for business combinations requires management to make significant estimates and assumptions, especially at the acquisition date, including estimates for intangible assets, contractual obligations assumed, restructuring liabilities, pre-acquisition contingencies, and contingent consideration, where applicable. Although the Company believes the assumptions and estimates made have been reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired companies and are inherently uncertain. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates, or actual results.

Contingent Consideration

The Company accounts for “contingent consideration” according to FASB ASC 805, “Business Combinations” (“FASB ASC 805”). Contingent consideration typically represents the acquirer’s obligation to transfer additional assets or equity interests to the former owners of the acquiree if specified future events occur or conditions are met. FASB ASC 805 requires that contingent consideration be recognized at the acquisition-date fair value as part of the consideration transferred in the transaction. FASB ASC 805 uses the fair value definition in Fair Value Measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As defined in FASB ASC 805, contingent consideration is (i) an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree, if specified future events occur or conditions are met or (ii) the right of the acquirer to the return of previously transferred consideration if specified conditions are met.

Warrant Liability

The Company accounts for certain common stock warrants outstanding as a liability at fair value and adjusts the instruments to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's consolidated statements of operations. The fair value of the warrants issued by the Company has been estimated using a Black Scholes model.

Embedded Conversion Features

The Company evaluates embedded conversion features within convertible debt to determine whether the embedded conversion feature(s) should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in the statement of operations. If the conversion feature does not require recognition of a bifurcated derivative, the convertible debt instrument is evaluated for consideration of any beneficial conversion feature ("BCF") requiring separate recognition. When the Company records a BCF, the intrinsic value of the BCF is recorded as a debt discount against the face amount of the respective debt instrument (offset to additional paid-in capital) and amortized to interest expense over the life of the debt.

Income Taxes

The provision for income taxes is determined in accordance with ASC 740, "Income Taxes". The Company files a consolidated United States federal income tax return. The Company provides for income taxes based on enacted tax law and statutory tax rates at which items of income and expense are expected to be settled in our income tax return. Certain items of revenue and expense are reported for Federal income tax purposes in different periods than for financial reporting purposes, thereby resulting in deferred income taxes. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company has incurred net operating losses for financial-reporting and tax-reporting purposes. As of September 30, 2021, and 2020, such net operating losses were offset entirely by a valuation allowance.

The Company recognizes uncertain tax positions based on a benefit recognition model. Provided that the tax position is deemed more likely than not of being sustained, the Company recognizes the largest amount of tax benefit that is greater than 50.0% likely of being ultimately realized upon settlement. The tax position is derecognized when it is no longer more likely than not of being sustained. The Company classifies income tax related interest and penalties as interest expense and selling, general and administrative expense, respectively, on the consolidated statements of operations.

In December 2017, the Tax Cuts and Jobs Act (TCJA or the Act) was enacted, which significantly changes U.S. tax law. In accordance with ASC 740, "Income Taxes", the Company is required to account for the new requirements in the period that includes the date of enactment. The Act reduced the overall corporate income tax rate to 21.0%, created a territorial tax system (with a one-time mandatory transition tax on previously deferred foreign earnings), broadened the tax base and allowed for the immediate capital expensing of certain qualified property.

In December 2020, the Company issued a significant number of new shares in its acquisition of Driven (see Note 10). The effect of these issuances is most likely, the Company and Driven have experienced the requisite change of control as promulgated under the US Internal Revenue Code section 382. The effect of this will be that going forward, the ability of the Company and Driven to utilize their respective U.S. Federal net operating loss carryforwards from prior to December 29, 2020, will be limited in its usage. In order to determine the specific effect, the Company must perform the computations required under the Internal Revenue Code, which have not yet been performed. The Company expects it will perform the required computations in the coming fiscal year.

Revenue Recognition

The Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers (Topic 606), the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Revenue for the Company's product sales has not been adjusted for the effects of a financing component as the Company expects, at contract inception, that the period between when the Company's transfers control of the product and when the Company receives payment will be one year or less. Product shipping and handling costs are included in cost of product sales.

Effective October 1, 2019, the Company adopted the requirements of ASU 2014-09 (ASC 606) and related amendments, using the modified retrospective method. The adoption of ASC 606 did not have a significant impact on the Company's revenue recognition policy as revenues related to wholesale and retail revenue are recorded upon transfer of merchandise to the customer, which was the effective policy under ASC 605 previously.

The following policies reflect specific criteria for the various revenue streams of the Company:

Cannabis Dispensary, Cultivation and Production

Revenue is recognized upon transfer of retail merchandise to the customer upon sale transaction, at which time its performance obligation is complete. Revenue is recognized upon delivery of product to the wholesale customer, at which time the Company's performance obligation is complete. Terms are generally between cash on delivery to 30 days for the Company's wholesale customers.

The Company's sales environment is somewhat unique, in that once the product is sold to the customer (retail) or delivered (wholesale) there are essentially no returns allowed or warranty available to the customer under the various state laws.

Delivery

1) *Identify the contract with a customer*

The Company sells retail products directly to customers. In these sales there is no formal contract with the customer. These sales have commercial substance and there are no issues with collectability as the customer pays the cost of the goods at the time of purchase or delivery.

2) *Identify the performance obligations in the contract*

The Company sells its products directly to consumers. In this case these sales represent a performance obligation with the sales and any necessary deliveries of those products.

3) *Determine the transaction price*

The sales that are done directly to the customer have no variable consideration or financing component. The transaction price is the cost that those goods are being sold for plus any additional delivery costs.

4) *Allocate the transaction price to performance obligations in the contract*

For the goods that the Company sells directly to customers, the transaction price is allocated between the cost of the goods and any delivery fees that may be incurred to deliver to the customer.

5) *Recognize revenue when or as the Company satisfies a performance obligation*

For the sales of the Company's own goods the performance obligation is complete once the customer has received the product.

Leases

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

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

On October 1, 2020, the Company adopted ASC 842 and elected to apply the new standard at the adoption date and recognize a cumulative effect as an adjustment to retained earnings. Upon calculation the effect on retained earnings was immaterial and no adjustment was deemed necessary. Leases with an initial term of twelve months or less are not recorded on the balance sheet. For lease agreements entered into or reassessed after the adoption of Topic 842, we combine the lease and non-lease components in determining the lease liabilities and right of use ("ROU") assets.

Our lease agreements generally do not provide an implicit borrowing rate; therefore, an internal incremental borrowing rate is determined based on information available at lease commencement date for purposes of determining the present value of lease payments. We used the incremental borrowing rate on September 30, 2021, for all leases that commenced prior to that date. In determining this rate, which is used to determine the present value of future lease payments, we estimate the rate of interest we would pay on a collateralized basis, with similar payment terms as the lease and in a similar economic environment.

Under Topic 842, operating lease expense is generally recognized evenly over the term of the lease. Lease costs were $839 thousand and $927 thousand for the years ended September 30, 2021, and 2020, respectively. There was sublease rental income of $17 thousand and $35 thousand, respectively for the years ended September 30, 2021, and 2020. The Company has thirteen operating leases consisting with remaining lease terms ranging from 23 months to 180 months.

Lease Costs

	Year Ended September 30, 2021
Components of total lease costs:	
Operating lease expense	$ 839
Total lease costs	$ 839

Lease positions as of September 30, 2021

ROU lease assets and lease liabilities for our operating leases were recorded in the consolidated condensed balance sheet as follows:

		September 30, 2021
Assets		
Right of use asset	$	4,562
Total assets	$	4,562
Liabilities		
Operating lease liabilities – short term	$	685
Operating lease liabilities – long term		3,963
Total lease liability	$	4,648

Lease Terms and Discount Rate

Weighted average remaining lease term (in years) – operating lease	9
Weighted average discount rate – operating lease	12.18%

Cash Flows

		Year Ended September 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
ROU amortization	$	839
Cash paydowns of operating liability	$	(839)
Supplemental non-cash amounts of lease liabilities arising from obtaining:		
ROU asset	$	4,562
Lease Liability	$	4,648

The future minimum lease payments under the leases are as follows:

2022	$	1,228
2023		1,088
2024		797
2025		687
2026		653
Thereafter		4,676
Total future minimum lease payments		9,129
Less: Lease imputed interest		(4,481)
Total	$	4,648

Disaggregation of Revenue

In the year ended September 30, 2020, and 2021, revenue reported was primarily from the sale of cannabis and related products accounted for under ASC 606.

The following table illustrates our revenue by type related to the years ended September 30, 2021, and 2020:

	September 30, 2021	September 30, 2020
Revenue		
Wholesale	$ 5,270	$ 3,832
Retail	35,805	12,389
Rental	17	35
Other	692	115
Total revenue	41,784	16,371
Discounts and returns	(6,015)	(2,397)
Net Revenue	$ 35,769	$ 13,974

Geographical Concentrations

As of September 30, 2021, the Company is primarily engaged in the production and sale of cannabis, which is only legal for recreational use in 15 states and D.C., with lesser legalization, such as for medical use in an additional 21 states and D.C., as of the time of these consolidated financial statements. In addition, the United States Congress has passed legislation, specifically the Agriculture Improvement Act of 2018 (also known as the “Farm Bill”) that has removed production and consumption of hemp and associated products from Schedule 1 of the Controlled Substances Act.

Cost of Goods Sold

Cost of sales represents costs directly related to manufacturing and distribution of the Company’s products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling and the depreciation of manufacturing equipment and production facilities. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance, and property taxes. The Company recognizes the cost of sales as the associated revenues are recognized.

Fair Value of Financial Instruments

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

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

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

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

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

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

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

Stock-based Compensation

The Company accounts for share-based payment awards exchanged for services at the estimated grant date fair value of the award. Stock options issued under the Company's long-term incentive plans are granted with an exercise price equal to no less than the market price of the Company's stock at the date of grant and expire up to ten years from the date of grant. These options generally vest on the grant date or over a one-year period.

The Company estimates the fair value of stock option grants using the Black-Scholes option pricing model and the assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment.

Expected Term - The expected term of options represents the period that the Company's stock-based awards are expected to be outstanding based on the simplified method, which is the half-life from vesting to the end of its contractual term.

Expected Volatility - The Company computes stock price volatility over expected terms based on its historical common stock trading prices.

Risk-Free Interest Rate - The Company bases the risk-free interest rate on the implied yield available on U. S. Treasury zero-coupon issues with an equivalent remaining term.

Expected Dividend - The Company has never declared or paid any cash dividends on its common shares and does not plan to pay cash dividends in the foreseeable future, and, therefore, uses an expected dividend yield of zero in its valuation models.

Effective January 1, 2017, the Company elected to account for forfeited awards as they occur, as permitted by Accounting Standards Update ("ASU") 2016-09. Ultimately, the actual expenses recognized over the vesting period will be for those shares that vested. Prior to making this election, the Company estimated a forfeiture rate for awards at 0%, as the Company did not have a significant history of forfeitures.

Earnings (Loss) per Share

ASC 260, Earnings Per Share, requires dual presentation of basic and diluted earnings per share ("EPS") with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Basic net loss per share of common stock excludes dilution and is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share of common stock reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity unless inclusion of such shares would be anti-dilutive. Since the Company has only incurred losses, basic and diluted net loss per share is the same. Securities that could potentially dilute loss per share in the future that were not included in the computation of diluted loss per share as of September 30, 2021, and 2020 are as follows:

Potentially dilutive share-based instruments:

	2021	2020
Convertible notes	3,696,311	5,763,210
Options to purchase common stock	7,140,447	5,572,916
Unvested restricted stock awards	-	2,471,317
Warrants to purchase common stock	62,965,833	5,053,078
	73,802,591	18,860,521

Advertising Costs

The Company follows the policy of charging the cost of advertising to expense as incurred. Advertising expense was $1 million and $66 thousand for the year ended September 30, 2021, and 2020, respectively.

Related parties

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

Segment reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision–making group in deciding how to allocate resources and in assessing performance. The Company's chief operating decision–maker is its chief executive officer. The Company currently operates in one segment.

Recent Accounting Guidance

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350)—Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the accounting for goodwill impairments by eliminating the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test referenced in Accounting Standards Codification ("ASC") 350, Intangibles - Goodwill and Other ("ASC 350"). As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2019. The adoption of this standard did not have a material impact on the Company's consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”). ASU 2018-13 removes, modifies and adds certain disclosure requirements in Topic 820 “Fair Value Measurement”. ASU 2018-13 eliminates certain disclosures related to transfers and the valuations process, modifies disclosures for investments that are valued based on net asset value, clarifies the measurement uncertainty disclosure, and requires additional disclosures for Level 3 fair value measurements. ASU 2018-13 is effective for the Company for annual and interim reporting periods beginning January 1, 2020. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The standard amends the existing lease accounting guidance and requires lessees to recognize a lease liability and a right-of-use asset for all leases (except for short-term leases that have a duration of one year or less) on their balance sheets. Lessees will continue to recognize lease expense in a manner similar to current accounting. For lessors, accounting for leases under the new guidance is substantially the same as in prior periods but eliminates current real estate-specific provisions and changes the treatment of initial direct costs. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparable period presented, with an option to elect certain transition relief. Full retrospective application is prohibited. The standard was adopted as of October 1, 2020. As of September 30, 2021, the Company recognized additional operating liabilities of approximately $4.6 million, with corresponding ROU assets of approximately $4.6 million.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 provides guidance for recognizing credit losses on financial instruments based on an estimate of current expected credit losses model. The amendments are effective for fiscal years beginning after December 15, 2019. Recently, the FASB issued the final ASU to delay adoption for smaller reporting companies to calendar year 2023. The Company is currently assessing the impact of the adoption of this ASU on its financial statements.

In January 2020, the FASB issued ASU 2020-01, Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivative and Hedging (Topic 815), which clarifies the interaction of rules for equity securities, the equity method of accounting, and forward contracts and purchase options on certain types of securities. The guidance clarifies how to account for the transition into and out of the equity method of accounting when considering observable transactions under the measurement alternative. The ASU is effective for annual reporting periods beginning after December 15, 2020, including interim reporting periods within those annual periods, with early adoption permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging —Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. This ASU amends the guidance on convertible instruments and the derivatives scope exception for contracts in an entity’s own equity, and also improves and amends the related EPS guidance for both Subtopics. The ASU will be effective for annual reporting periods beginning after December 15, 2021 and interim periods within those annual periods and early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

3. Property, Plant & Equipment

Property and equipment consist of the following (in thousands):

	September 30, 2021	September 30, 2020
Land	$ 1,451	$ 1,451
Automobiles	113	61
Signage	19	19
Furniture and equipment	3,038	2,485
Leasehold improvements	3,474	3,455
Buildings and property improvements	10,126	12,981
Computer software	59	59
	18,280	20,511
Accumulated depreciation	(5,670)	(4,157)
Property and equipment, net	$ 12,610	$ 16,354

Depreciation expense was approximately $1.93 million and $1.65 million for the years ended September 30, 2021, and 2020, respectively. Depreciation expense is included in general and administrative expense.

4. Inventory

Inventory consists of the following (in thousands):

	September 30, 2021	September 30, 2020
Raw materials	$ 866	$ 222
Work-in-progress	543	484
Finished goods	2,100	1,089
Total Inventory	**$ 3,509**	**$ 1,795**

Raw materials and work-in-progress include the costs incurred for cultivation materials and live plants. Finished goods consists of cannabis products sent to retail locations or ready to be sold. No inventory reserve was recorded for the years ended September 30, 2021, and 2020 due to management's assessment of the inventory on hand.

5. Prepaid expenses and other current assets

Prepaid expenses and other current assets are assets and payments previously made, that benefit future periods. The balance as of September 30, 2021, includes the Employee Retention Tax Credit ("ERTC") program from the U.S Treasury, as part of the COVID-19 stimulus package. During the fiscal year ended September 30, 2021, the Company applied for certain ERTC credits in the approximate amount of $5.1 million, which is reflected within the Statement of Operations as a reduction to general and administration expense. The remaining balance of the ERTC receivable was $1.3 million as of September 30, 2021.

Prepaid and other current assets comprised of the following:

	September 30, 2021	September 30, 2020
Prepaid expenses	$ 800	$ 249
ERTC credits	1,257	-
Deposits and other current assets	1,017	203
Total prepaid expenses and other current assets	$ 3,074	$ 452

6. Equity method investments

SOK Management, LLC

During the year ended September 30, 2021, the Company sold its remaining ownership interest in SOK Management in the amount of $200,000 and was recorded as other investment income under other income on the Company's profit and loss statement.

Tilstar Medical, LLC

In April 2019, the Company entered into an agreement to acquire 48% of the membership interest of Tilstar Medical, LLC ("TIL"). TIL is a startup operation located in Laurel, Maryland and owns a project management company which assists in procuring licenses for the production and sale of cannabis. The purchase price for the 48% interest was $550,000 to capitalize TIL which under the operating agreement occurs upon the execution of the agreement. As of September 30, 2019, the Company had funded the $550,000 and accounted for its investment using the equity method of accounting. The Company was not made aware at time of its investment in the type and magnitude of expenses that would be funded with its investment capital and is currently in the process of renegotiating the terms of the operating agreement. During the year ended September 30, 2019, Tilstar Medical along with its partner, Stem Holdings, Inc. received a letter from the Maryland Medical Cannabis commission with notification that we received stage one pre-approval for a processor license. The Companies application ranked amongst the top nine highest scoring applications for a medical cannabis processor license. Final awards will be issued during calendar year 2021. As of September 30, 2021, and September 30, 2020, the difference between the investment and the percentage of net assets attributable to the Company's investment was approximately $0.29 for both years. During the year ended September 30, 2021, the Company recorded its share of investee gain on investment of approximately $1,000. During the year ended September 30, 2020, the Company recorded its share of investee losses on investment of approximately $14,000.

Community Growth Partners, Inc

On January 6, 2020, the Company issued a convertible promissory note to Community Growth Partners Holdings, Inc., ("CGS") which will act as a line of credit. Subject to the terms and conditions of the note, CGS promises to pay the Company all of the outstanding principal together with interest on the unpaid principal balance upon the date that is twelve months after the effective date and shall be payable as follows: (a)The Company agrees to make several loans to CGS from time to time upon request of CGS in amounts not to exceed the principal sum of $2,000,000, (b) Payment of principal and interest shall be immediately available funds, (c) This note may be prepaid in whole or in part at any time without premium or penalty. Any partial prepayment shall be applied against the principal amount outstanding, (d) The unpaid principal amount outstanding under this note shall bear interest commencing upon the first advance at the rate of 10% per annum through the maturity date, calculated on the basis of a 365-day, until the entire indebtedness is fully paid, (e) Upon the closing of a $2,000,000 financing by the Company, all of the principal and interest shall automatically convert into equity shares of CGS at the price obtained by the qualified financing. As of September 30, 2020, a portion of the note was converted into 7% equity. In March 2021, the balance of a note receivable was converted into an additional 6% equity leaving an equity investment of 13%.

7. Note Receivable

On January 4, 2020, the Company issued a $355,000 promissory note to Community Growth Partners Holdings, Inc., ("CGS"). CGS is a cannabis license holder in Massachusetts. Subject to the terms and conditions of the note, CGS promises to pay the Company all of the outstanding balance together with interest the date that is six months after the opening of the Great Barrington Dispensary which was opened September 2020. As of September 30, 2021, the note is in default and the Company is negotiating modification terms. As of September 30, 2021, and 2020 the principal and interest balance of the note is $422,204 and $355,000 respectively.

On January 6, 2020, the Company issued a convertible non-negotiable revolving credit promissory note up to $2,500,000 with a four-year term to CGS. Subject to the terms and conditions of the note, CGS promises to pay the Company the lesser of $2,500,000 or the aggregate unpaid principal amount of the loan. In the period of January 2020 through August 2020 the Company advanced $899,700 related to the note. In September 2020, the Company converted $480,182 of the balance into approximately 7% ownership in CGS. In March 2021, the Company converted the remaining balance plus accrued interest of $30,000 into an additional 6% ownership interest in CGS. As of September 30, 2021, and 2020 the principal and interest balance of the note was $0 and $419,518, respectively.

In September 2020 a former employee received funds on behalf of the Company. On October 1, 2020, the Company executed a $14,382 promissory note to memorialize and structure a plan to receive the funds from the individual. The note is non-interest bearing and is to be paid in equal monthly installments of $799 over an eighteen-month term with a maturity date of March 1, 2022. As of September 30, 2021, and 2020 the principal balance of the note was $7,990 and $14,382, respectively.

On October 1, 2020, the Company issued a $100,000 promissory note to Bushman Holdings, Inc., ("BHI") BHI is a CBD Cannabis holding company in Florida. During the nine months ended June 30, 2021, the Company issued additional promissory notes totaling $210,000. Subject to the terms and conditions of the notes, BHI promised to pay the Company all outstanding balances on or before January 1, 2022. The Company has determined that the note is uncollectible and recognized bad debt expense of $310,000 for the year ended September 30, 2021.

On April 5, 2021, the Company issued a $250,000 non-negotiable convertible promissory note ("Note") to Blake, Inc. The Note has a maturity date which is six months after the close of the Arkannabis, a Colorado grow facility. The note has annual interest rate of 5.75%. Per the terms of the note, the principal balance and related interest shall be made in immediately available funds in lawful currency. The terms of the note call for automatic conversion upon the closing of the Arkannabis business of the outstanding principal and interest on this Note and will convert into that number of shares of the equity securities equivalent to a non-dilutive 12.5% of the issued and outstanding shares of the Arkannabis business. The Company has determined that the note is uncollectible and recognized bad debt expense of $257,010 for the year ended September 30, 2021.

8. Consolidated Asset Acquisitions

YMY Ventures LLC

In September 2018, the Company entered into an agreement to acquire 50% of the membership interest of YMY Ventures LLC ("YMY"). YMY is a startup operation located near Las Vegas, Nevada and owns licenses for the production and sale of cannabis. The purchase price for the 50% interest was $750,000, with the first $375,000 paid into escrow upon signing, with the final $375,000 due upon closing, which under the agreement occurs when the license is transferred by the Nevada Department of Taxation and receipt of approval in transfer of ownership by the Division of Public and Behavioral Health of the City of North Las Vegas. As of June 30, 2019, the Company had funded the $375,000 into escrow and had provided the joint venture with additional funds primarily in the form of payments for work performed to acquire four licenses from the Nevada Department of Taxation in the amount of approximately $690,238. As of February 28, 2019, the Nevada Department of Taxation approved the change of ownership for four medical and recreational cultivation and production licenses held by YMY Ventures now owned by Stem Holdings, Inc. Pursuant to the agreement, the escrowed amount of $375,000 was released and an additional payment of $67,500 was issued in August 2019. The balance of $307,500 was being held and negotiated with the partners due to the additional funds over and above the original obligation to provide tenant improvements of $650,000. As of September 30, 2021, the balance has been paid in full including interest and attorney's fees.

NVD RE Corp.

In April 2018, the Company received a 37.5% interest in NVD RE Corp. (“NVD”) upon its issuance to NVD of a commitment to contribute \$1.275 million to NVD, which included the purchase price of \$600,000 and an additional commitment to pay tenant improvement costs of \$675,000. As of September 30, 2019, the Company paid \$600,000 in cash for the real estate and not only fully funded its commitment but invested an additional \$377,000 in capital over and above its original obligation. NVD used the funds provided to date by the Company to construct a cannabis indoor grow building and processing plant located near Las Vegas, Nevada and to continue the buildout of the property. The Company has no further commitment to fund the entity beyond its initial equity purchase commitment. NVD leases its facilities to YMY Ventures, LLC.

In the fiscal year ended September 30, 2019, NVD obtained \$300,000 in proceeds from a mortgage on its property. The funds from this mortgage were advanced to the Company. As of December 31, 2020, this obligation was paid in its entirety, and \$400,000 in additional proceeds were received on new mortgage.

In May 2020, the Company acquired an additional 26.25% interest in NVD by issuing 386,035 common shares at par value of \$0.001 which resulted in a total investment of 63.75%.

West Coast Ventures

On March 29, 2019, the Company entered into a definitive agreement to acquire Western Coast Ventures, Inc. (“WCV”). At the time of acquisition, WCV was a shell with cash of \$2,000,000 and a 51% ownership with ILCA Holdings, Inc. (“ILCA”). At the time of acquisition of WCV, ILCA was also a shell with no operations, which has been issued a limited Conditional Use Permit for a Marijuana Production Facility (a “MPF”) by the City of San Diego, California, which will only be granting a total of 40 MPFs. As consideration for the acquisition, the Company issued 2,500,000 shares of its common stock, with a fair value of approximately \$4.4 million or \$1.47 per share, the Company’s closing stock price on March 29, 2019. The Company recorded \$2.0 million of cash acquired and a \$2.4 million investment in ILCA. During the year ended September 30, 2021 the Company determined the investment in ILCA was impaired and recognized an impairment expense of \$2.2 million for the year ended September 30, 2021.

Michigan RE 1

On January 4, 2021, the Company entered into a Securities Purchase Agreement (“SPA”) with Michigan RE 1, Inc. (“MRE1”) pursuant to a private placement offering of up to an aggregate amount of \$510 comprising up to 510 shares of MRE1’s common stock which represents 51% ownership by the Company. On January 5, 2021, the Company was party to an Asset Purchase Agreement between Leoni Wellness, LLC (“Seller”) and Organic Guyz, LLC (“Purchaser”) whereas the Seller is engaged in the recreational cannabis business and the Purchaser desires to purchase the local municipal license to operate an adult use retailer in the City of Kalamazoo, Michigan. The purchase price to be paid by the Purchaser is \$400,000. A non-refundable deposit of \$250,000, except in the event of a material breach of the SPA, is due within three days of the executed SPA. The deposit will be acknowledged by an execution of a joint escrow agreement. At closing the Purchaser will pay \$250,000 to the Seller by cashiers check or wire transfer. The remaining \$150,000 shall be paid by the Purchaser to the Seller in accordance with a promissory note to be executed at closing. The promissory note shall be paid in full on the earlier of the date the Purchaser purchases the real property located at 3928 Portage Street, Kalamazoo, Michigan or eighteen months from the closing date. The promissory note shall be secured by an escrow agent whereby three hundred thousand (300,000) shares (“Shares”) of Stem Holdings shall be held in the benefit of Seller and a Collateral Assignment of Licenses and Permits whereby upon default on the promissory note, the Purchaser shall assign the marijuana business permit back to the Seller. Upon the maturity date of the promissory note, in the event that the borrower has not paid the principal balance of the note in full, Seller shall have the option to receive the Shares as payment or \$150,000 by wire transfer. As of September 30, 2021, the buildout of the Michigan retail dispensary has begun, however the project has been delayed due to Department of Zoning and Planning coding issues.

Kaya Holdings, Corp.

On April 13, 2021, the Company executed an Investors’ Rights Agreement in conjunction with a Subscription Agreement with Kaya Holdings, Corp. The Company purchased 2,875,000 shares of Class B common stock of Kaya Holdings, Corp for a total investment of \$230,000. In addition to the purchased Class B shares, the Company received 500,000 founder Class B shares resulting in a total of 3,375,000 Class B shares.

9. Non-Controlling Interests

Non-controlling interests in consolidated entities are as follows (in thousands):

	As of September 30, 2020			
	NCI Equity Share	Net Loss Attributable to NCI	NCI in Consolidated Entities	Non-Controlling Ownership %
NVD RE Corp.	$ 597	$ (48)	$ 549	50.0%
Western Coast Ventures, Inc.	1,288	(240)	1,048	49.0%
YMY Ventures, Inc.	447	(204)	243	50.0%
	$ 2,332	$ (492)	$ 1,840	

	As of September 30, 2021			
	NCI Equity Share	Net Loss Attributable to NCI	NCI in Consolidated Entities	Non-Controlling Ownership %
NVD RE Corp.	$ 587	$ (34)	$ 553	36.2%
Western Coast Ventures, Inc.	1,052	(210)	842	49.0%
YMY Ventures, Inc.	243	56	299	50.0%
Michigan RE 1, Inc.	-	(54)	(54)	49.0%
	$ 1,882	$ (242)	$ 1,640	

10. Business Combination

Seven Leaf Ventures Corp. ("7LV")

In March 2020, the Company acquired 100% of the voting interest in Seven Leaf Ventures Corp. ("7LV"), a private Alberta corporation, and its subsidiaries, pursuant to the terms of a share purchase agreement dated March 6, 2020. 7LV owns Foothills Health and Wellness, a medical dispensary, in the greater Sacramento, California area. In connection with the acquisition, the Company issued 12,085,770 shares of common stock to former shareholders of 7LV ("7LV Shares"). The Company also issued a replacement 10% unsecured convertible debentures in the aggregate principal amount of C$3,410 ($2,540 USD) (the "Replacement Debentures"), convertible into shares at a conversion price of C$1.67 per share at any time prior to May 3, 2021, to former holders of unsecured convertible debentures of 7LV. As of September 30, 2021, this debenture has been completely converted. As part of the Acquisition, the Company assumed the obligations of 7LV with respect to the common share purchase warrants of 7LV outstanding on the closing of the acquisition, subject to appropriate adjustments to reflect the exchange ratio. Accordingly, the Company has assumed 1,022,915 common share purchase warrants (the "Warrants"), exercisable into shares at an exercise price of C$2.08 per share at any time prior to May 3, 2021, 299,975 Warrants, exercisable into shares at an exercise price of C$4.17 per share at any time prior to June 30, 2021 and 999,923 Warrants, exercisable into shares at an exercise price of C$0.50 at any time prior to October 10, 2020. All of these aforementioned warrants have expired. Following the completion of the acquisition, 7LV is now a wholly owned subsidiary of the Company.

The table below shows the warrant liability and embedded derivative liability recorded in connection with the 7LV convertible notes and the subsequent fair value measurement during the year ended September 30, 2021, in USD, (*in thousands*):

	Warrant Liability	Derivative Liability
Balance as of September 30, 2020	**$ 60**	**$ 54**
Issuance	-	-
Change in fair value	(60)	(54)
Balance as of September 30, 2021	**$ -**	**$ -**

Purchase Price Allocation

As of March 6, 2020, the Company allocated the purchase consideration to the fair value of the assets acquired and liabilities assumed as summarized in the table below (in thousands):

Consideration Paid (in thousands)		
Estimated fair value of common stock issued	$	9,552
Estimated fair value of warrants issued		772
Estimated fair value of debt issued		2,540
Estimated fair value of embedded and bifurcated derivatives		244
Forgiveness of working capital advance		(150)
Total consideration paid	**$**	**12,958**
Assets acquired: (in thousands)		
Cash and cash equivalents	$	81
Fixed assets		54
Inventory		133
Goodwill		6,151
Intangible assets		7,684
Total assets acquired	**$**	**14,103**
Liabilities assumed: (in thousands)		
Accrued expenses and other current liabilities		1,145
Total liabilities assumed	$	1,145
Net assets acquired (in thousands)	**$**	**12,958**

Pursuant to the Asset Purchase Agreement ("APA") between 7LV USA Corporation and the Company, upon the one-year anniversary date of the closing the Company shall pay 7LV USA Corporation additional consideration of $1,220,000 less certain adjustments related to revenue targets per the APA less Consultant Compensation paid to the prior owners of 7LV USA Corporation. The goodwill of $6.2 million will not be deductible for income tax purposes.

Driven Deliveries, Inc.

In December 2020, the Company, through an Agreement and Plan of Merger became the parent of an 100% wholly owned subsidiary Driven Deliveries, Inc., ("DRVD", "Driven" or "Driven Deliveries"), its subsidiaries, a publicly held corporation on December 29, 2020. DRVD is an e-commerce and DaaS (delivery-as-a-service) provider with proprietary logistics and omnichannel UX/CX technology. Driven utilizes its own fulfillment centers, drivers, and proprietary technology. Driven provides two service levels to its customers: (i) an "Express" delivery with a limited product selection that is usually delivered within 90 minutes or less; and (ii) a "Next Day" scheduled delivery from a larger selection of 500+ products from a Driven fulfillment center. In connection with the acquisition, the Company issued 101,968,944 shares of common stock to the existing shareholders of Driven ("DRVD Shares"). As part of the Acquisition, the Company assumed the Driven stock options outstanding on the closing of the acquisition in the amount of 4,530,495. Accordingly, the Company has assumed 30,249,184 common share purchase warrants (the "Warrants"), exercisable into shares at an average exercise price of $.45 per share. Following the completion of the acquisition, Driven became a wholly-owned subsidiary of the Company.

The table below shows the warrant liability and embedded derivative liability recorded in connection with the Driven convertible notes and the subsequent fair value measurement during the year ended September 30, 2021 in USD, (*in thousands*):

	Warrant Liability	Derivative Liability
Balance as of September 30, 2020	$ -	$ -
Warrants acquired	9,000	-
Warrants converted into equity	(4,589)	-
Change in fair value	(2,415)	-
Balance as of September 30, 2021	**$ 1,996**	$ -

Purchase Price Allocation

As of December 29, 2020, the Company allocated the purchase consideration to the fair value of the assets acquired and liabilities assumed as summarized in the table below *(*in thousands):

Consideration Paid (in thousands)

Consideration Paid (in thousands)	
Estimated fair value of common stock issued	$ 40,048
Estimated fair value of warrants issued	9,000
Estimated fair value of options issued	500
Estimated fair value of debt assumed	4,389
Total consideration paid	**$ 53,937**
Assets acquired: (in thousands)	
Cash and cash equivalents	$ -
Fixed assets	47
Other Assets	1,526
Goodwill	11,740
Intangible assets	47,900
Total assets acquired	**$ 61,213**
Liabilities assumed: (in thousands)	
Accrued expenses and other current liabilities	(7,276)
Total liabilities assumed	$ (7,276)
Net assets acquired (in thousands)	**$ 53,937**

The goodwill of $11,740,000 is not expected to be deductible for income tax expenses.

As of September 30, 2021, the company received the carrying value of the Driven long-lived tangible and intangible assets. Based on this review, we recorded an impairment expense of $52.5 million.

On December 17, 2021, pursuant to a Share Exchange Agreement, the Company sold Driven Deliveries and its subsidiaries to the shareholders of Budee, Inc. in a transaction which STEM fully divested its interest in Driven Deliveries and its subsidiaries. Included in the terms of the Share Exchange Agreement, the shareholders of Budee, and a prior officer of Driven Deliveries returned approximately 11.5 million shares of the Company’s common stock and assumed approximately $7.1 million of the Company’s liabilities. Notwithstanding, the Company will continue to be responsible for $210,753 of accounts payable assumed in the acquisition of Driven Deliveries. (see Note 20).

The Company also recorded adjustments for the elimination of other investments totalling $1.715 million.

Artifact

On September 17, 2021, pursuant to an Agreement and Plan of Reorganization ("Agreement") the Company acquired a marijuana processor business and a marijuana retailer business located in Eugene, Oregon; a marijuana retailer business located in Salem, Oregon; and certain intellectual property assets, including but not limited to the "ARTIFACT EXTRACTS" trademark that is used by the retail businesses acquired in connection with the Agreement. In connection with the Agreement, the Company acquired fixed assets and intangible assets in exchange for 8,209,178 common shares of the Company valued at $2,380,661 or $0.29 per share.

Purchase Price Allocation

As of September 17, 2021, the Company allocated the purchase consideration to the fair value of the assets acquired and liabilities assumed as summarized in the table below (in thousands):

Purchase Consideration		
Stock Consideration	$	2,381
Total Purchase Consideration	$	2,381

Allocation of Purchase Consideration		
Working Capital	$	189
Fixed Assets		14
Customer Relationships		3
License		1,762
Tradename		206
Goodwill		207
Total Purchase Consideration	$	2,381

The goodwill of $207,000 is not expected to be deductible for income tax expenses.

The following unaudited proforma condensed consolidated results of operations have been prepared as if the three acquisitions above occurred October 1, 2019.

	Year ended September 30, 2021	Year ended September 30, 2020
Revenue	$ 43,821	$ 30,640
Net loss	$ (75,427)	$ (41,535)

The unaudited proforma condensed consolidated results of operations are not necessarily indicative of results that would have occurred had the acquisitions occurred as of October 1, 2019 nor are they necessarily indicative of the results that may occur in the future. Included in the consolidated statement of operations for the year ended September 30, 2021 is $5,766, $14,832 and $26 of revenue and $934, ($54,096) and ($20) of net income (losses) attributable to 7LV, Driven and Artifacts, respectively. Included in the consolidated statement of operations for the year ended September 30, 2020 is $3,921 of revenue and $137 of net income attributable to 7LV.

11. Intangible Assets, net

Intangible assets as of September 2021, and 2020 (in thousands):

	Estimated Useful Life	Cannabis Licenses	Tradename	Customer Relationship	Non-compete	Technology	Accumulated Amortization	Net Carrying Amount
Balance as September 30, 2020		$ 12,679	$ 458	$ 643	$ 220	$ -	$ (731)	$ 13,269
YMY Ventures	15	-	-	-	-	-	(50)	(50)
Western Coast Ventures, Inc.	15	(3,791)	-	-	-	-	161	(3,630)
Yerba Buena	3-15 years	-	-	-	-	-	(172)	(172)
Foothill (7LV)	15	-	-	-	-	-	(523)	(523)
Driven Deliveries	10-15 years	9,315	415	-	-	413	(2,532)	7,611
JV Retail 3	3-15 years	478	40	1	-	-	(3)	516
JV Retail 4	3-15 years	445	38	1	-	-	(3)	481
JV Extraction	10-15 years	966	-	-	-	-	(9)	957
Other	5	-	-	-	-	5	-	5
Balance as September 30, 2021		$ 20,092	$ 951	$ 645	$ 220	$ 418	$ (3,861)	$ 18,465

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives or other relevant factors or changes. Amortization expense for the years ended September 30, 2021, and 2020 was $3,460 and $731, respectively.

The following table is a runoff of expected amortization in the following 5-year period as of September 30:

2022	$ 1,579
2023	1,579
2024	1,579
2025	1,579
2026	1,579
Thereafter	10,570
	$ 18,465

12. Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of the following (in thousands):

	September 30, 2021	September 30, 2020
Accounts payable	3,331	$ 1,784
Accrued credit cards	25	41
Accrued interest	87	134
Accrued payroll	875	616
Accrued sales tax liability	2,604	-
Other	1,592	408
Total Accounts Payable and Accrued Expenses	**$ 8,514**	**$ 2,983**

13. Notes Payable and Advances

The following table summarizes the Company's short-term notes and advances, acquisition note payable, due to related party loans, and long-term debt, mortgages as of September 30, 2021, and 2020:

	September 30,	
	2021	2020
Equipment financing	$ 30	$ 27
Insurance financing	268	177
Mortgages payable	-	923
Promissory note	359	2,298
Settlement payable	92	-
Due to related party	1	200
	$ 750	**$ 3,625**
Acquisition notes payable	409	665
Total notes payable and advances	**$ 1,159**	**$ 4,290**
Long-term mortgages	2,100	3,685
Total long-term debt	**$ 2,100**	**$ 3,685**

Equipment financing

In Effective April 29, 2018, the Company entered into a 36-month premium finance agreement in consideration for a John Deere Gator Tractor in the principal amount of $15,710. The note bears no annual interest rate and requires the Company to make thirty-six monthly payments of $442 over the term of the note. As of September 30, 2021, and 2020, the obligation outstanding is $0 and $3,097, respectively. No amount was recorded for the premium for the non-interest-bearing feature of the note as it was immaterial. The note was secured by the equipment financed.

November 2017, the Company entered into a promissory note in the amount of $21,749 from a vendor of the Company to finance the acquisition of a security electronics system in one of its properties. The promissory note bears an interest rate of 18% per annum and contains a 10% servicing fee. The note matures 24 months after issuance and is secured by certain security electronics purchased with proceeds of the note. As of September 30, 2020, the Company recorded the obligation outstanding of $14,950. This vendor is now out of business, consequently, the Company recorded the balance of the note payable of $14,950 as a gain on forgiveness as of September 30, 2021.

Pursuant to the Company's acquisition of Yerba Buena the Company assumed a note payable obligation dated July 2017 related to a tractor which had a 60-month premium finance agreement. The principal amount was $28,905. The note bears no annual interest rate and requires the Company to make sixty monthly payments of $482 over the term of the note. As of September 30, 2021, and 2020, the obligation outstanding is $4,794 and $9,611, respectively. No amount was recorded for the premium for the non-interest-bearing feature of the note as it was immaterial. The note is secured by the equipment financed.

January 2021, the Company entered into a promissory note in the amount of $27,880 for the acquisition of a truck. The promissory note bears an interest rate of 13.29% per annum and is secured by the financed vehicle. The note has a sixty-month term with monthly payment of $642. As of September 30, 2021, the balance outstanding is $25,108.

Insurance financing

Effective February 7, 2020, the Company entered into a 12-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $300,150. The note bears an annual interest rate of 7.46%. The Company paid $60,255 as a down payment on February 7, 2020, the note requires the Company to make 9 monthly payments of $22,718 over the remaining term of the note. This note was paid in full in January 2021.

Effective February 17, 2021, the Company entered into a 12-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $243,284. The note bears an annual interest rate of 7.46%. The Company paid $47,100 as a down payment on February 17, 2021, the note requires the Company to make 10 monthly payments of $17,835 over the remaining term of the note. As of September 30, 2021, the obligation outstanding is $103,876.

Effective July 31, 2020, the Company entered into a 10-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $53,325. The note bears an annual interest rate of 7.5%. The Company paid $15,602 as a down payment on July 31, 2020, the note requires the Company to make 10 monthly payments of $3,772 over the remaining term of the note. As of September 30, 2021, the obligation was paid in full.

Effective July 31, 2020, the Company entered into a 10-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $78,056. The note bears an annual interest rate of 7.5%. The Company paid $22,984 as a down payment on July 31, 2020, the note requires the Company to make 10 monthly payments of $5,507 over the remaining term of the note. As of September 30, 2021, the obligation was paid in full.

Effective May 24, 2020, the Company entered into a 9-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $16,777. The note bears an annual interest rate of 8.7%. The Company paid $3,485 as a down payment on May 24, 2020, the note requires the Company to make 9 monthly payments of $1,339 over the remaining term of the note. This note was paid in full in January 2021.

Effective July 16, 2020, the Company entered into a 9-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $10,629. The note bears an annual interest rate of 11%. The Company paid $4,009 as a down payment on July 16, 2020, the note requires the Company to make 9 monthly payments of $736 over the remaining term of the note. As of September 30, 2021, the obligation was paid in full.

Effective September 30, 2020, the Company entered into a 10-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $2,611. The note bears an annual interest rate of 7.0%. The Company paid $1,043 as a down payment on September 30, 2020, the note requires the Company to make 10 monthly payments of $157 over the remaining term of the note. As of September 30, 2021, the obligation was paid in full.

Effective November 7, 2020, the Company entered into a 10-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $6,675. The note bears an annual interest rate of 11.4%. The Company paid $1,371 as a down payment on November 7, 2020, the note requires the Company to make 10 monthly payments of $530 over the remaining term of the note. As of September 30, 2021, the obligation was paid in full.

Effective December 4, 2020, the Company entered into a 10-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $9,920. The note bears an annual interest rate of 12.8%. The Company paid $2,383 as a down payment on December 4, 2020, the note requires the Company to make 10 monthly payments of $754 over the remaining term of the note. As of September 30, 2021, the obligation outstanding is $753.

Effective February 9, 2021, the Company entered into a 12-month premium finance agreement in consideration for an insurance policy in the principal amount of $22,391. In April 2021, the Company added an additional location to the policy which increased the policy premium by $7,575. The revised policy premium is $29,967. The note bears an annual interest rate of 8.5%. The Company paid $2,488 as a down payment on March 9, 2021, the note requires the Company to make 8 monthly payments of $3,435 over the remaining term of the note. As of September 30, 2021, the obligation outstanding is $6,870.

Effective February 24, 2021, the Company entered into a 12-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $13,694. The note bears an annual interest rate of 7.369%. The Company paid $3,424 as a down payment on April 19, 2021, the note requires the Company to make 9 monthly payments of $1,199 over the remaining term of the note. As of September 30, 2021, the obligation outstanding is $4,795.

Effective April 10, 2021, the Company entered into a 12-month premium finance agreement for an insurance policy in the principal amount of $78,750. The note bears an annual interest rate of 8.35%. The Company paid $15,750 as a down payment on May 10, 2021, the note requires the Company to make 9 monthly payments of $7,271 over the remaining term of the note. As of September 30, 2021, the obligation outstanding is $29,084.

Effective April 17, 2021, the Company entered into a 12-month premium finance agreement for an insurance policy in the principal amount of $23,014. The note bears an annual interest rate of 11.98%. The Company paid $4,871 as a down payment on March 16, 2021, the note requires the Company to make 10 monthly payments of $1,814 over the remaining term of the note. As of September 30, 2021, the obligation outstanding is $5,443.

Effective May 31, 2021, the Company entered into a 12-month premium finance agreement for an insurance policy in the principal amount of $8,906. The note bears an annual interest rate of 10.25%. The Company paid $2,537 as a down payment on May 28, 2021, the note requires the Company to make 9 monthly payments of $741 over the remaining term of the note. As of September 30, 2021, the obligation outstanding is $4,445.

Effective July 16, 2021, the Company entered into a 9-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $10,650. The note bears an annual interest rate of 11%. The Company paid $4,113 as a down payment on June 30, 2021, the note requires the Company to make 9 monthly payments of $726 over the remaining term of the note. As of September 30, 2021, the obligation outstanding is $6,870.

Effective July 17, 2021, the Company entered into a 12-month premium finance agreement for an insurance policy in the principal amount of $16,850. The note bears an annual interest rate of 3.96%. The note requires the Company to make 12 monthly payments of $1,351 over the term of the note. As of September 30, 2021, the obligation outstanding is $14,148.

Effective August 30, 2021, the Company entered into a 12-month premium finance agreement for an insurance policy in the principal amount of $58,899. The note bears an annual interest rate of 7.99%. The Company paid $17,769 as a down payment on August 1, 2021, the note requires the Company to make 9 monthly payments of $4,113 over the remaining term of the note. As of September 30, 2021, the obligation outstanding is $32,904.

Effective August 30, 2021, the Company entered into a 12-month premium finance agreement for an insurance policy in the principal amount of $94,116. The note bears an annual interest rate of 11.26%. The Company paid $27,102 as a down payment on August 27, 2021, the note requires the Company to make 9 monthly payments of $7,446 over the remaining term of the note. As of September 30, 2021, the obligation outstanding is $59,568.

Short-term mortgages payable

On January 16, 2018, the Company consummated a "Contract for Sale" for a Farm Property in Mulino Oregon (the "Mulino Property"). The purchase price was $1,700,000 which was reduced by a rental credit of approximately $135,000 which is equivalent to nine months' rent at $15,000 a month and an additional credit of $9,500 for additional work done on the property. In connection with the purchase of the property, the Company made a cash payment as down payment plus payment of closing costs in the amount of $370,637 and issued a promissory note in the amount of $1,200,000 with a maturity of January 2020. The Company will pay monthly installments of principal and interest (at a rate of 2% per annum) in the amount of $13,500, commencing in July 2018 through the maturity date (January 2020), at which time the entire unpaid principal balance and any remaining accrued interest shall be due and payable in full. No amount was recorded for the premium for the below market rate feature of the note as it was immaterial. The note is secured by a deed of trust on the property. The Company performed an analysis and determined that the rate obtained was below market, however, no premium was recorded as the Company determined it was immaterial. As of September 30, 2020, the balance due is $922,500. On November 23, 2020, the Company executed a real estate purchase agreement related to the Mulino Property which included the sale of the property and payoff of the aforementioned mortgage. Additionally, the Company entered into a lease agreement whereas the amount of $13,750 required as a rent payment through the lease is being recorded as interest expense under the guidance of ASC 842 (see Finance liability below).

Promissory note

In January 2020, the Company issued two promissory notes with a principal balance of $500,000 to accredited investors (the "Note Holders"). The notes mature in July 2020 and has an annual rate of interest of 12%. In connection with the issuance of the promissory notes, the Company issued the Note Holders 100,000 common stock purchase warrants with a five-year term from the issuance date, $0.85 per share. As of July 2020, in consideration of the warrants being amended to $0.45 per share with an extended the term from five to a ten-year term, the maturity date has been extended to December 13, 2020. In May 2020, the Company made a principal payment of $20,000. As of September 30, 2021, these obligations were converted into equity.

In January 2020, the Company issued two promissory notes with a principal balance of $500,000 to accredited investors (the "Note Holders"). The note matures in October 2020 and has an annual rate of interest of 12%. In connection with the issuance of the promissory note, the Company issued the Note Holders 100,000 common stock purchase warrants with a five-year term from the issuance date, $0.85 per. As of July 2020, in consideration of the warrants being amended to $0.45 per share with an extended the term from five to a ten-year term, the maturity date has been extended to December 13, 2020. As of September 30, 2020, the obligation outstanding is $500,000 and $440,403, net of debt discount of $59,597. As of September 30, 2021, the obligation outstanding is $425,000 and the balance is $358,996, net of debt discount of $66,004. The Company was notified that the maturity dates on these notes have been extended for the near-term.

In July 2020, the Company's wholly owned subsidiary in Oregon received loan proceeds of $220,564 pursuant to the Paycheck Protection Program under the CARES Act. The Loan, which was in the form of a promissory note, dated July 09, 2020, between the Company and Cross River Bank as the lender, matures on July 09, 2022 and bears interest at a fixed rate of 1% per annum, payable monthly commencing in six months. Under the terms of the PPP, the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits mortgage interest, rent, and utilities. No assurance can be provided that the Company will obtain forgiveness of the Loan in whole or in part. In addition, details of the PPP continue to evolve regarding which companies are qualified to receive loans pursuant to the PPP and on what terms, and the Company may be required to repay some or all of the Loan due to these changes or different interpretations of the PPP requirements. As of September 30, 2021, the obligation outstanding of $220,565 was forgiven and recorded as other income.

The Company received loan proceeds of $266,820 pursuant to the Paycheck Protection Program under the CARES Act. The Loan, which was in the form of a promissory note, dated May 1, 2020, between the Company and Transportation Alliance Bank as the lender, matures on May 1, 2022 and bears interest at a fixed rate of 1% per annum, payable monthly commencing in six months. Under the terms of the PPP, the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits mortgage interest, rent, and utilities. No assurance can be provided that the Company will obtain forgiveness of the Loan in whole or in part. In addition, details of the PPP continue to evolve regarding which companies are qualified to receive loans pursuant to the PPP and on what terms, and the Company may be required to repay some or all of the Loan due to these changes or different interpretations of the PPP requirements. As of September 30, 2021, the obligation outstanding of $266,820 was forgiven and recorded as other income.

The Company's related entity received loan proceeds of $245,400 pursuant to the Paycheck Protection Program under the CARES Act. The Loan, which was in the form of a promissory note, dated June 03, 2020, between the Company and Coastal States Bank as the lender, matures on June 03, 2022 and bears interest at a fixed rate of 1% per annum, payable monthly commencing in six months. Under the terms of the PPP, the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits mortgage interest, rent, and utilities. No assurance can be provided that the Company will obtain forgiveness of the Loan in whole or in part. In addition, details of the PPP continue to evolve regarding which companies are qualified to receive loans pursuant to the PPP and on what terms, and the Company may be required to repay some or all of the Loan due to these changes or different interpretations of the PPP requirements. As of September 30, 2021, the obligation outstanding of $245,400 was forgiven and recorded as other income.

The Company's subsidiary received loan proceeds of $62,500 pursuant to the Paycheck Protection Program under the CARES Act. The Loan, which was in the form of a promissory note, dated June 25, 2020, between the Company and First Home Bank as the lender, matures on June 25, 2022, and bears interest at a fixed rate of 1% per annum, payable monthly commencing in six months. Under the terms of the PPP, the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits mortgage interest, rent, and utilities. No assurance can be provided that the Company will obtain forgiveness of the Loan in whole or in part. In addition, details of the PPP continue to evolve regarding which companies are qualified to receive loans pursuant to the PPP and on what terms, and the Company may be required to repay some or all of the Loan due to these changes or different interpretations of the PPP requirements. As of September 30, 2021, the obligation outstanding of $62,500 was forgiven and recorded as other income.

The Company's subsidiary received loan proceeds of $140,407 pursuant to the Paycheck Protection Program under the CARES Act. The Loan, which was in the form of a promissory note, dated July 15, 2020, between the Company and Cross River Bank as the lender, matures on December 30, 2020 and bears interest at a fixed rate of 1% per annum, payable monthly commencing in six months. Under the terms of the PPP, the principal may be forgiven if the Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits mortgage interest, rent, and utilities. No assurance can be provided that the Company will obtain forgiveness of the Loan in whole or in part. In addition, details of the PPP continue to evolve regarding which companies are qualified to receive loans pursuant to the PPP and on what terms, and the Company may be required to repay some or all of the Loan due to these changes or different interpretations of the PPP requirements. As of September 30, 2021, the obligation outstanding of $140,407 was forgiven and recorded as other income.

Settlement payable

As part of the Agreement and Plan of Merger with Driven Deliveries the Company assumed a settlement payable related to an employment claim where Driven shall pay certain employees a total of $250,451. This settlement is payable in equal bi-monthly payments over a period of seventeen (17) Months (36 pay periods), beginning in February 2021. As of September 30, 2021, the settlement payable is presented on the balance sheet in the amount of $92,045.

Due to related parties

During November 2017, one of the Company's controlled subsidiaries entered into a Promissory Note with a face value of $80,000 with a corporate entity that has shareholders, officers and directors in common with the Company. The Note bears interest at a rate of 6% per annuum and was due one year from the date of issue. On June 1, 2021, the note was forgiven and fully cancelled by the issuer. As of June 30, 2021, the obligation outstanding is zero.

As of September 30, 2021, the Company had a related party loan payable of $1,000 payable to the Company's officer.

Acquisition notes payable

In April 2019, the Company entered into promissory note with a principal balance of $400,000 related to its acquisition of Yerba Buena, Oregon LLC. The note was issued on April 8, 2019, it is due on April 8, 2021. The note has a coupon interest rate of 8%. The note required 12 monthly payments of $2,667, then an additional 12 monthly payments of $16,667 and then a final balloon payment of the remaining principal and accrued interest. In March 2021, the Company paid $61,860 of the principal balance of the promissory note. The remaining balance of $295,859 was converted into equity.

In September 2018, the Company entered into an agreement to acquire 50% of the membership interest of YMY. The purchase price for the 50% interest was approximately $0.8 million. In connection with this agreement, as of September 30, 2019, the Company has paid approximately $500,000 and recorded a note payable of $307,500. In January 2021, the Company paid the $307,500 balance of the note payable.

As part of the Agreement and Plan of Merger with Driven Deliveries the Company assumed a acquisition liabilities totaling $2,000,418. These liabilities related to a California's Private Attorney General Act ("PAGA") labor claims, liabilities related to a Purchase Agreement for certain assets, and a settlement related to a prior acquisition. In February 2021, the Company executed a settlement agreement to remove $850,000 of debt and retire 5,000,000,000 warrants in exchange for 500,000 common shares of restricted stock. In March 2021, the Company paid $612,291 of debt and recorded forgiveness of debt of $37,708 related to another settlement agreement. As of September 30, 2021, the total assumed liabilities are $408,827.

Long-term debt, mortgages

In January 2020, the Company refinanced a mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 15% per annum. Monthly interest only payments began February 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance is due on January 31, 2022, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the CEO and Director of the Company. As of September 30, 2021, the obligation outstanding is $400,000.

In March 2020, the Company executed a $1,585,000 mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 11.55% per annum. Monthly interest only payments began April 1, 2020, payments were made each month thereafter until paid. The entire unpaid balance was due on April 1, 2023, the maturity date of the mortgage, and is secured by the underlying property. The Company paid costs of approximately $120,000 to close on the mortgage. The note was cross guaranteed by the CEO and Director of the Company. On May 14, 2021, the Company entered into a purchase leaseback agreement and sold the property to a third party. As of September 30, 2021, there was no mortgage obligation related to this property.

In March 2020, the Company executed a $400,000 mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 11.55% per annum. Monthly interest only payments began May 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance is due on April 1, 2022, the maturity date of the mortgage, and is secured by the underlying property. The Company paid costs of approximately $38,000 to close on the mortgage. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the CEO and Director of the Company. As of September 30, 2021, the obligation outstanding is $400,000.

In March 2020, the Company refinanced a mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 15% per annum. Monthly interest only payments began April 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance is due on March 31, 2022, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the CEO and Director of the Company. As of September 30, 2021, the obligation outstanding is $700,000.

In July 2020, the Company executed a mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 14% per annum. Monthly interest only payments began August 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance is due on July 31, 2023, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the CEO and Director of the Company. As of September 30, 2021, the obligation outstanding is $200,000.

In April 2018, the Company received a 37.5% interest in NVD RE Corp. ("NVD") upon its issuance to NVD of a commitment to contribute $1.275 million to NVD which included the purchase price of $600,000 and an additional commitment to pay tenant improvement costs of $675,000. In the year ended September 30, 2019, NVD obtained $300,000 in proceeds from a mortgage on its property. The funds from this mortgage were advanced to the Company. The advance is undocumented, non-interest bearing and due on demand. As of September 30, 2019, the balance due totals $300,000. In August 2020, the Company refinanced this obligation and paid the $300,000 balance. The refinanced mortgage term is 36 months and includes and interest rate of 14% and monthly interest only payments of $4,667. As of September 30, 2021, the balance due totals $400,000.

The following is a table of the 5-year runoff of our long-term debt as of September 30:

2022	$	1,500
2023		600
2024		-
2025		-
2026		-
Thereafter		-
	$	2,100

Finance liability

In November 2020, the Company executed a mortgage payable on property located in Mulino, Oregon to acquire additional funds. The mortgage bears interest at 15% per annum The entire unpaid balance was due November 2022, the maturity date of the mortgage, and was secured by the underlying property. The note was cross guaranteed by the CEO and Director of the Company. On November 23, 2020, the Company executed a real estate purchase agreement related to the Mulino Property which included the sale of the property and payoff of the mortgage. Additionally, the Company entered into a lease agreement whereas the amount of $13,750 required as a rent payment through the lease is being recorded as interest expense and the Company recorded a finance liability of $1,094,989 related to the lease under the guidance of ASC 842 as a failed sale and leaseback transaction.

14. Convertible debt

Canaccord

On December 27, 2018, the Company entered into an Agency Agreement (the "Agency Agreement") for a private offering of up to 10,000 convertible debenture special warrants of the Company (the "CD Special Warrants") for aggregate gross proceeds of up to CDN$10,000,000 (the "Offering"). The net proceeds of the Offering were used for expansion initiatives and general corporate purposes. The Company's functional currency is U.S. dollars.

In December 2018 and January 2019, the Company issued 3,121 CD Special Warrants in the first closing of the Offering, at a price of CDN $1,000 per CD Special Warrant, and received aggregate gross proceeds of CDN $3.1 million or $2.3 million USD. In connection with this offering, the Company issued the agents in such offering 52,430 convertible debenture special warrants (the "Broker CD Special Warrants") as partial satisfaction of a selling commission.

On March 14, 2019, the Company issued 962 CD Special Warrants in the second and final closing of the Offering, at a price of CDN $1,000 per CD Special Warrant, and received aggregate gross proceeds of CDN $1.0 million or $0.7 million USD. In connection with this offering, the Company issued the agents in such offering 5,600 convertible debenture special warrants (the "Broker CD Special Warrants") as partial satisfaction of a selling commission.

The total aggregate proceeds of the Offering totaled $4.1 million CDN or $3.1 million USD.

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 of the Company (a "Convertible Debenture Unit"), on the earlier of: (i) the third business day after the date on which both (A) a receipt (the "Receipt") for a (final) document (the "Qualification Document") qualifying the distribution of the Convertible Debentures (as defined below) and Warrants (as defined below) 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 (the "Canadian Jurisdictions"), 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 U.S. Securities and Exchange Commission (the "Registration"); and (ii) the date that is six months following the closing of the Offering. The Company has also provided certain registration rights to purchasers of the CD Special Warrants. The CD Special Warrants were exchanged for Convertible Debenture Units after six months as U.S. and Canadian registrations were not effective at that time.

Each Convertible Debenture Unit is comprised of CDN $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"). Each Warrant entitles the holder to purchase one common share of the Company (each, a "Warrant Share") at an exercise price of CDN $3.90 per Warrant Share for a period of 24 months following the closing of the Offering.

The Company has agreed to use its best efforts to obtain the Receipt and Registration within six months following the closing of the Offering. If the Receipt and Registration have not been obtained on or before 5:00 p.m. (PST) on the date that is 120 days following the closing of the Offering, each unexercised CD Special Warrant will thereafter entitle the holder thereof to receive, upon the exercise thereof and at no additional cost, 1.05 Convertible Debenture Units per CD Special Warrant (instead of 1.0 Convertible Debenture Unit per CD Special Warrant). Until the Receipt and Registration have been obtained, securities issued in connection with the Offering (including any underlying securities issued upon conversion or exercise thereof) will be subject to a six (6)-month hold period from the date of issue. Since the CD Special Warrants were exchanged for Convertible Debenture Units after six (6) months as U.S. and Canadian registrations were not effective at that time, the holders received 1.05 Convertible Debenture Units per CD Special Warrant.

The brokered portion of the Offering (CDN $2.5 million, $1.9 million USD) was completed by a syndicate of agents (collectively, the "Agents"). The Company paid the Agents a cash commission equal to 7.0% of the gross proceeds raised in the brokered portion of the Offering. As additional consideration, the Company issued the Agents such number of non-transferable broker convertible debenture special warrants (the "Broker CD Special Warrants") as is equal to 7.0% of the number of CD Special Warrants sold under the brokered portion of the Offering. Each Broker CD Special Warrant shall be exchanged, on the same terms as the CD Special Warrants, into broker warrants of the Company (the "Broker Warrants"). Each Broker Warrant entitles the holder to acquire one Convertible Debenture Unit at an exercise price of CDN $1,000, until the date that is 24 months from the closing date of the Offering. The distribution of the Broker Warrants issuable upon the exchange of the Broker CD Special Warrants shall also be qualified under the Qualification Document and the resale of the common shares underlying the Broker Warrants will be registered under the Registration Statement. The Company also paid the lead agent a commission noted above of CDN$157,290, corporate finance fee equal to CDN $50,000 in cash and as to $50,000 in common shares of the Company at a price per share of CDN$3.00 plus additional expenses of CDN$20,000. In addition, the Company paid the trustees legal fees of CDN$181,365. In total the Company approx. USD $0.32 million in fees and expenses associated with the offering.

The issuance of the securities was made in reliance on the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), for the offer and sale of securities not involving a public offering, Regulation D promulgated under the Securities Act, Regulation S, in Canada to "accredited investors" within the meaning of National Instrument 45106 and other exempt purchasers in each province of Canada, except Quebec, and/or outside Canada and the United States on a basis which does not require the qualification or registration. The securities being offered have not been registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons absent registration or an applicable exemption from the registration requirements.

The Convertible Debenture features contain the following embedded derivatives:

- Conversion Option - The Convertible Debentures provide the holder the right to convert all or any portion of the outstanding principal into common shares of the Company at a conversion price of C$3.00 such that 333.33 common shares are issued for each C$1,000 of principal of Convertible Debentures converted.
- Contingent Put - Upon an Event of Default, the Convertible Debentures settle for cash at the outstanding principal and interest amount (at discretion of the Indenture Trustee or upon request of Holders of 25% or more of principal of the Convertible Debentures).
- Contingent Put - Upon a Change in Control, the Convertible Debentures settle for cash at the outstanding amount and principal and interest * 105% (where Holder accepts a Change of Control Offer).

The conversion option, the contingent put feature upon an Event of Default, and the contingent put feature upon a Change in Control should be bifurcated and recognized collectively as a compound embedded derivative at fair value at inception and at each quarterly reporting period.

A five percent penalty assessed for failure to timely file a registration statement to register the stock underlying the CD special warrants.

The Company valued the warrants granted using the Black-Scholes pricing model and determined that the value at grant date was approximately $424,000 USD (this includes the warrants issued as part of the penalty for failure to timely file the required registration statement under the indenture agreement). The significant assumptions used in the valuation are as follows:

Fair value of underlying common shares	$	1.78 to $2.10
Exercise price (converted to USD)	$	2.93
Dividend yield		-
Historical volatility		85%
Risk free interest rate		1.4% to 1.9%

The warrants are not indexed to the Company's own stock under ASC 815, Derivatives and Hedging. As such, the warrants do not meet the scope exception in ASC 815-10-15-74(a) to derivative accounting and therefore were accounted for as a liability in accordance with the guidance in ASC 815. The warrant liability was recorded at the date of grant at fair value with subsequent changes in fair value recognized in earnings each reporting period.

In April 2020, the Company received approval of the holders Warrant holders of the warrants and the holders debenture holders of the Convertible Debentures to reprice the convertible securities issued in connection with the Company's special warrant financing, which closed on December 27, 2018, and June 14, 2019. The share purchase warrants of the Company issued in connection with the financing will be repriced to C$1.50 per Common Share and the convertible debentures of the Company issued in connection with the financing will be repriced to C$1.15 per common share. Additionally, the Debenture holders have approved the following amendments to the terms of the convertible debentures: (i) an extension to the maturity date of the convertible debentures to three years from the date of issuance; and (ii) an amendment to permit the Company to force the conversion of the principal amount of the then outstanding convertible debentures and any accrued and unpaid interest thereof at the new conversion price on not less than June days' prior written notice if the closing trading price of the shares of common stock of the Company's common shares exceeds C$1.90 for a period of 10 consecutive trading days on the CSE. The Warrant holders have also approved the inclusion of an early acceleration feature in accordance with the policies of the Canadian Securities Exchange, permitting the Company to accelerate the expiry date of the warrants should the closing trading price of the Common Shares exceed C$1.87 for a period of 10 consecutive trading days on the CSE. As of September 30, 2021, the convertible debt related to the above debentures is $2.9 million.

The table below shows the warrant liability and embedded derivative liability recorded in connection with the Canaccord convertible notes and the subsequent fair value measurement during the year ended September 30, 2021, in USD, (*in thousands*):

	Warrant Liability	Derivative Liability
Balance as of September 30, 2020	**$ 67**	**$ 592**
Change in fair value	(67)	(592)
Balance as of September 30, 2021	**$ -**	**$ -**

7LV

During the year ended September 30, 2021, the Company tendered a repayment of the entire principal amount of its 10% unsecured convertible debentures, being C$3,260,000, through the issuance of 5,258,053 shares of common stock of the Corporation to the holders of the Debentures in accordance with the terms of the trust indenture between the Corporation and Olympia Trust Company dated December 27, 2018, as amended, and supplemented. The Corporation also made a cash payment of approximately US$30,000 to the holders of the Debentures in respect of accrued and unpaid interest as of May 3, 2021, being the maturity date of the Debentures.

Driven

As part of the Agreement and Plan of Merger with Driven Deliveries the Company assumed a convertible promissory note with a principal of $1,050,000. The note accrues interest at a rate of 8% per annum. The note converts to the Company's common stock at a rate of $0.50 per share. This note has an original issuance discount of $50,000. The proceeds of the note were paid out in two tranches, the first for $787,500 upon the execution of the note and the second for $262,500 30 days after the original funding. Each tranche will be due 12 months from the date of the funding. The Company can prepay the note as follows: if the note is outstanding for less than 90 days than 105% of the principal will be paid, at 91-120 day 110% of the principal will be paid, at 121-180 days 115% of the principal will be paid, and at 181-365 days 120% of the principal will be paid. So long as this note is outstanding, upon any issuance by the Company or any of its subsidiaries of any convertible debt security (whether such debt begins with a convertible feature or such feature is added at a later date) with any term more favorable to the holder of such security or with a term in favor of the holder of such security that was not similarly provided to the holder in this Note, then the Company shall notify the holder of such additional or more favorable term and such term, at the holder's option, shall become a part of this note and its supporting documentation. The types of terms contained in the other security that may be more favorable to the holder of such security include, but are not limited to, terms addressing conversion discounts, terms addressing maturity, conversion look back periods, interest rates, original issue discount percentages and warrant coverage. The Company notes the agreement included certain make-whole provisions related to the issuance of these shares which resulted in a liability. On February 26, 2021, the Company executed a conversion and satisfaction agreement resulting in the conversion of $831,110 principal balance of this promissory note. As of September 30, 2021, the balance of this obligation has been fully converted.

As part of the Agreement and Plan of Merger with Driven Deliveries the Company assumed a convertible promissory note with a principal of $50,000. The note accrues interest at a rate of 10% per annum. The note converts to the Company's common stock at a rate of $0.50 per share. The interest on the promissory note is to be paid quarterly in arrears on the fifth day of each calendar quarter. As of September 30, 2021, the balance of this obligation has been fully converted.

The table below shows the net amount of convertible notes as of September 30, 2021, in USD (*in thousands*):

	September 30, 2021
Principal value of 8%, convertible at $0.91 at September 30, 2021, due December 27, 2021 including penalty provision of $155,239	$ 2,831
Cumulative foreign currency impact	109
Carrying value of convertible notes	$ 2,940

Additionally, as part of the Agreement and Plan of Merger with Driven Deliveries the Company assumed a convertible promissory note with a principal of $805,000 payable to a related party. The note accrues interest at a rate of 10% per annum. The note converts to the Company's common stock at a rate of $0.50 per share. Beginning January 1, 2021, $15,000 of principal is payable per month in addition to 50% of owed interest. Beginning April 1, 2021, 10% of the Company's monthly cash flow, as defined will also be paid and applied to the principal of the note. The principal amount of the note along with accrued interest is due on the maturity date of June 1, 2025. As of September 30, 2021, the outstanding balance on this obligation is $223,464.

On December 17, 2021, pursuant to a Share Exchange Agreement, the Company sold Driven Deliveries and its subsidiaries to the shareholders of Budee, Inc. in a transaction which STEM fully divested its interest in Driven Deliveries and its subsidiaries. Included in the terms of the Share Exchange Agreement, the shareholders of Budee, and a prior officer of Driven Deliveries returned approximately 11.5 million shares of the Company's common stock and assumed approximately $7.1 million of the Company's liabilities. Notwithstanding, the Company will continue to be responsible for $210,753 of accounts payable assumed in the acquisition of Driven Deliveries. (see Note 20).

15. Fair Value Measurements

In accordance with ASC 820 (Fair Value Measurements and Disclosures), the Company uses various inputs to measure the outstanding warrants and certain embedded conversion feature associated with convertible debt on a recurring basis to determine the fair value of the liability. ASC 820 also establishes a hierarchy categorizing inputs into three levels used to measure and disclose fair value. The hierarchy gives the highest priority to quoted prices available in active markets and the lowest priority to unobservable inputs. An explanation of each level in the hierarchy is described below:

Level 1 – Unadjusted quoted prices in active markets for identical instruments that are accessible by the Company on the measurement date

Level 2 – Quoted prices in markets that are not active or inputs which are either directly or indirectly observable

Level 3 – Unobservable inputs for the instrument requiring the development of assumptions by the Company

The following table classifies the Company's liabilities measured at fair value on a recurring basis into the fair value hierarchy as of September 30, 2021 (in thousands):

	Fair value measured at September 30, 2021			
	Fair value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant liability	$ 2,277	$ -	$ -	$ 2,277
Embedded derivative liability	-	-	-	-
Total fair value	$ 2,277	$ -	$ -	$ 2,277

There were no transfers between Level 1, 2 or 3 during the year ended September 30, 2021.

The following table presents changes in Level 3 liabilities measured at fair value for the year ended September 30, 2021. Both observable and unobservable inputs were used to determine the fair value of positions that the Company has classified within the Level 3 category. Unrealized gains and losses associated with liabilities within the Level 3 category include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long- dated volatilities) inputs (in thousands).

	Warrant Liability	Embedded Derivative Liability	Total
Balance – September 30, 2019	**$ 283**	**$ 158**	**$ 441**
Warrants granted for stock-based compensation	105	-	105
Warrants granted with promissory notes	162	-	162
Warrants issued pursuant to acquisition (see Note 9)	772	-	772
Issuance of convertible notes	-	244	244
Change in fair value	(1,065)	190	(875)
Balance – September 30, 2020	**$ 257**	**$ 592**	**$ 849**
Warrants granted for stock-based compensation	59	-	59
Warrants granted with promissory notes	-	-	-
Warrants issued pursuant to acquisition (see Note 9)	9,000	-	9,000
Issuance of convertible notes	(66)	(15)	(81)
Change in fair value	(2,401)	(577)	(2,978)
Cancellation of warrants pursuant to settlement agreement	(4,572)	-	(4,572)
Balance - September 30, 2021	**$ 2,277**	**$ -**	**$ 2,277**

A summary of the weighted average (in aggregate) significant unobservable inputs (Level 3 inputs) used in measuring the Company's warrant liabilities and embedded conversion feature that are categorized within Level 3 of the fair value hierarchy as of September 30, 2021, and 2020 is as follows:

	Warrant Liability	
	As of September 30,	
	2021	2020
Strike price	$ 0.48	$ 0.36 to 2.96
Contractual term (years)	2.57	1 to 3
Volatility (annual)	74%	100%
Risk-free rate	1.0%	0.28%
Dividend yield (per share)	0%	0%

	Embedded Derivative Liability	
	As of September 30,	
	2021	2020
Strike price	$ 0.90	$ 1.12
Contractual term (years)	0.8	1.5
Volatility (annual)	55%	101%
Risk-free rate	0.08%	0.25%
Dividend yield (per share)	0.00%	0.00%
Credit spread	14% to 16%	11.21%

The Company used a lattice based trinomial model developed by Tsiveriotis, K. and Fernades in which the three lattices incorporate (1) the Company's underlying common stock price; (2) the value of the debt components of the convertible notes; and (3) the value of the equity component of the convertible notes. The main drivers of sensitivity for the model are volatility and the credit spread. The model used will vary by approximately 1.5% for a 4% change in volatility and will vary by less than 1% for each 1% change in credit spread.

16. Income Taxes

The income tax expense (benefit) consisted of the following for the fiscal year ended September 30, 2021 and 2020:

	September 30, 2021	September 30, 2020
Total current	$ -	$ -
Total deferred	-	-
	$ -	$ -

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

The following is a reconciliation of the expected statutory federal income tax provision to the actual income tax benefit for the fiscal year ended September 30, 2021 and 2020:

	September 30, 2021	September 30, 2020
Federal statutory rate	$ (16,152)	$ (2,873)
Permanent timing differences	12,165	567
Change in valuation allowance	3,987	2,306
	$ -	$ -

For the years ended September 30, 2021 and 2020, the expected tax benefit, temporary timing differences and long-term timing differences are calculated at the 25% statutory rate.

Significant components of the Company's deferred tax assets and liabilities were as follows for the fiscal year ended September 30, 2021 and 2020:

	September 30, 2021	September 30, 2020
Deferred tax assets:		
Net operating loss carryforwards	$ 8,454	$ 6,397
Equity based compensation	3,192	3,173
Impairment of loan receivable	-	75
Impairment of investments and other property	2,362	2,531
Total deferred tax assets	14,008	12,176
Deferred tax liabilities	-	-
Depreciation	49	359
Deferred revenue	-	1,845
Total deferred tax liabilities	49	2,204
Net deferred tax assets	13,959	9,972
Less valuation allowance	(13,959)	(9,972)
Net deferred tax assets (liabilities)	$ -	$ -

At September 30, 2021, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $36 million. The federal and state net operating loss carryforwards will expire beginning in 2037.

During the fiscal year ended September 30, 2021 and 2020, the Company recognized no amounts related to tax interest or penalties related to uncertain tax positions. The Company is subject to taxation in the United States and various state jurisdictions. The Company currently has no years under examination by any jurisdiction.

17. Shareholders' Equity

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

Pursuant to the shareholders meeting on June 25, 2021, the Company has amended its certificate of incorporation to increase the number of authorized Company Common Shares from 300,000,000 to 750,000,000.

Preferred shares

The Company had two series of preferred shares designated with no preferred shares issued and outstanding as of September 30, 2021, and 2020.

Common shares

During the year ended September 30, 2021, the Company issued 3,914,509 shares of its common stock valued at $1,675,000 as stock-based compensation.

During the year ended September 30, 2021, the Company issued 4,790,070 shares of its common stock related to various consulting agreements for a fair value of approximately $2,032,000 with a price per share ranging from $0.29 to $0.51.

During the year ended September 30, 2021, the Company sold 1,465,117 shares of its common stock for total cash received of $630,000.

During the year ended September 30, 2021, the Company cancelled 525,400 common shares related to convertible notes.

During the year ended September 30, 2021, the Company cancelled 58,140 common shares related to a subscription agreement.

During the year ended September 30, 2021, the Company converted $309,121 of its accrued interest related to convertible debt in exchange for 553,417 shares of the company's common stock. The Company also issued 293,700 common shares in satisfaction of rent payments owed of $117,480.

During the year ended September 30, 2021, as part of the Agreement and Plan of Merger with Driven Deliveries the Company issued 101,968,944 common shares.

During the year ended September 30, 2021, the Company issued 300,000 shares of its common stock with a fair value of $210,000 on behalf of its Michigan joint venture partner into escrow pursuant to a security agreement related to the commercial lease.

During the year ended September 30, 2021, the Company converted $4,913,000 of principal balance related to convertible debt in exchange for 9,480,259 shares of the company's common stock.

During the year ended September 30, 2021, the Company issued 500,000 shares of its common stock in connection with a settlement agreement for settlement liability of $5,439,855.

During the year ended September 30, 2021, the Company raised $4,892,000 for the issuance of 5,322,136 shares of its common stock in connection with a private placement memorandum.

During the year ended September 30, 2021, the Company issued 10,000 shares of its common stock in connection with the exercise of the company's stock option plan.

During the year ended September 30, 2021, the Company issued 90,909 shares of its common stock valued at $40,000 in connection with commission expense.

During the year ended September 30, 2021, the Company cancelled 694,233 common shares related to investment.

During the year ended September 30, 2021, the Company issued 19,276,340 shares of its common stock valued at $7,919 million pursuant to its Canadian prospectus.

During the year ended September 30, 2021, the Company issued 8,209,178 shares of its common stock in connection with an asset acquisition valued at $2,380,661.

During the year ended September 30, 2021, the Company raised $2,869,889 for the issuance of 6,833,069 common shares pursuant to Driven Deliveries, Inc. S1 registration.

During the year ended September 30, 2020, the Company issued 845,238 shares of its common stock related to a stock purchase agreement for cash of $449,850.

During the year ended September 30, 2020, the Company converted $196,355 of its convertible debt in exchange for 228,260 shares of the company's common stock.

During the year ended September 30, 2020, the Company converted $291,505 of its accrued interest related to convertible debt in exchange for 703,809 shares of the company's common stock.

During the year ended September 30, 2020, the Company issued 394,270 shares of its common stock in connection with a Membership Interest Purchase Agreement for real property located in Eugene, Oregon. The agreed upon purchase price was $500,000 less the lien of $106,000. The Company acquired the property from a related party and recorded the building at its carrying value of approximately $500,000. In connection with this transaction the Company issued 394,270 common shares at $1.00 per share.

Pursuant to the acquisition of 7LV, the Company issued 12,085,770 shares of common stock to former shareholders of 7LV. The Company also issued a replacement 10% unsecured convertible debentures in the aggregate principal amount of C$3,410,000 ($2,540,000 USD) (the "Replacement Debentures"), convertible into shares at a conversion price of C$1.67 per share at any time prior to May 3, 2021, to former holders of unsecured convertible debentures of 7LV (see Note 8).

As of May 2020, the Company entered into a Share Exchange Agreement with the NVDRE shareholders to exchange their shareholdings that represent 26.25 percent of NVDRE in exchange for the issuance of the Company's common stock. The exchange amounted to the issuance of 386,035 shares of the Company's common stock valued and recorded to investment at $196,000 (see Note 8).

During the year ended September 30, 2020, the Company issued 1,162,916 shares of its common stock related to various consulting agreements for a fair value of approximately $926,000 or $0.80 per share. During the same period, the Company cancelled 700,000 common shares related to consulting agreements.

During the year ended September 30, 2020, the Company issued 472,506 shares of its common stock valued at $165,000 as stock-based compensation.

During the year ended September 30, 2020, the Company issued 425,000 shares of its common stock in connection with the purchase of minority interests in CVO and OPCO Holdings. The common shares were valued at $0.001 the par rate of $425.

18. Stock Based Compensation

Stock Options

The fair value of the Company's common stock was based upon the publicly quoted price on the date that the final approval of the awards was obtained. The Company does not expect to pay dividends in the foreseeable future so therefore the expected dividend yield is 0%. The expected term for stock options granted with service conditions represents the average period the stock options are expected to remain outstanding and is based on the expected term calculated using the approach prescribed by the Securities and Exchange Commission's Staff Accounting Bulletin for "plain vanilla" options. The expected term for stock options granted with performance and/or market conditions represents the period estimated by management by which the performance conditions will be met. The Company obtained the risk-free interest rate from publicly available data published by the Federal Reserve. The Company uses a methodology in estimating its volatility percentage from a computation that was based on a comparison of average volatility rates of similar companies to a computation based on the standard deviation of the Company's own underlying stock price's daily logarithmic returns.

The fair value of options granted during the years ended September 30, 2021, and 2020 were estimated using the following weighted-average assumptions:

<u>Options:</u>

	For the Years Ended September 30,	
	2021	2020
Exercise price	$0.28	$ 0.97
Expected term (years)	4.39	2.78
Expected stock price volatility	74%	95.7-188.6%
Risk-free rate of interest	0.98%	0.2%
Expected dividend rate	0%	0%

A summary of option activity under the Company's stock option plan for the year ended September 30, 2021 is presented below:

	Number of Shares	Weighted Average Exercise Price	Total Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Outstanding as of October 1, 2019	**3,210,416**	**$ 2.45**	**$ -**	**2.1**
Granted	2,362,500	0.33	-	2.89
Outstanding as of September 30, 2020	**5,572,916**	**$ 1.77**	**$ -**	**2.21**
Granted	1,125,000	0.28	54	4.39
Outstanding as of September 30, 2021	**6,697,916**	**$ 1.07**	**$ 54**	**2.09**
Options vested and exercisable	**4,425,416**	**$ 1.18**	**$ -**	**1.68**

Estimated future stock-based compensation expense relating to unvested stock options was nominal as of September 30, 2021, and 2020. Weighted average remaining contractual life of the options is 1.68 years.

Restricted Stock

A summary of employee restricted stock activity for years ended September 30, 2021 and 2020 are presented below:

	Number of Shares	Weighted Average Exercise Price
Outstanding as of October 1, 2019	**2,248,811**	**1.65**
Granted	222,506	1.64
Outstanding as of September 30, 2020	**2,471,317**	**1.57**
Granted	3,914,509	0.96
Outstanding as of September 30, 2021	**6,385,826**	**$ 0.93**

A summary of non-employee restricted stock activity under the Company's for years ended September 30, 2021 and 2020 are presented below:

	Number of Shares	Weighted Average Exercise Price
Outstanding as of September 30, 2019	**2,446,262**	**1.73**
Granted	1,412,916	1.72
Outstanding as of September 30, 2020	**3,859,178**	**1.72**
Granted	5,058,370	0.58
Outstanding as of September 30, 2021	**8,917,548**	**$ 0.99**

Warrants

A summary of the status of the Company's outstanding warrants as of September 30, 2021 and 2020 and changes during the year then ended are presented below:

	Number of Warrants	Weighted Average Exercise Price	Remaining Contractual Term
Outstanding as of September 30, 2019	2,241,920	$ 2.92	1.6
Warrants granted – equity	200,000	0.45	7
Warrants granted – liability	2,672,813	1.14	1.2
Outstanding as of September 30, 2020	5,114,733	2.13	1
Warrants granted – equity	32,666,266	0.53	2.00
Warrants expired – equity	(114,300)	2.50	-
Warrants granted – liability	30,299,134	0.45	3.04
Warrants expired – liability	(5,000,000)	0.20	1.51
Outstanding as of September 30, 2021	62,965,833	0.47	1.23

Stock-based Compensation Expense

Stock-based compensation expense for the years ended September 30, 2021, and 2020 was comprised of the following (in thousands):

	Years Ended September 30,	
	2021	2020
Restricted stock awards	$ 1,935	$ 1,092
Stock options	279	981
Warrants	59	-
Accrued stock compensation	-	370
Total stock-based compensation	$ 2,273	$ 2,443

19. Commitments and contingencies

As noted earlier in Note 1, the Company, engages in a business that constitutes an illegal act under the laws of the United States Federal Government. This raises several possible issues which may impact the Company's overall operations, not the least of which are related to traditional banking and other key operational risks. Since cannabis remains illegal on the federal level, and most traditional banks are federally insured, those financial institutions will not service cannabis businesses. In states where medical or recreational marijuana is legal, dispensary owners, manufacturers, and anybody who "touches the plant," continue to face a host of operational hurdles. While local, state-chartered banks and credit unions now accept cannabis commerce, there remains a reluctance by traditional banks to do business with them. Aside from a huge inconvenience and the need to find creative ways to manage financial flow, payroll logistics, and payment of taxes, his also poses tremendous risks to controls as a result of operating a lucrative business in cash. This lack of access to traditional banking may inhibit industry growth. In the period ended June 30, 2021, the Company's has accounts with a Florida bank and several credit unions located in Washington and California.

Despite the uncertainties surrounding the Federal government's position on legalized marijuana, the Company does not believe these risks will have a substantive impact on its planned operations in the near term.

In July 2016, the Company entered into a 10-year lease for a commercial building from an unrelated third party in Springfield, Oregon. The lease requires the Company to pay a starting base rental fee of $7,033 plus an additional estimated $315 per month in real estate taxes in which the base rental fee escalates each year by approximately 2%. All taxes (including reconciling real estate taxes), maintenance and utilities are included at the end of each year as a one-time payment. In addition, the Company also remitted $14,000 for a security deposit to the landlord. No amounts have been recorded for deferred rent in these financial statements as the amount was deemed immaterial by the Company. The Company has subleased this space pursuant to a 10-year lease. On February 22, 2018, both parties executed a lease addendum that adds contiguous property for 12,322 square feet. The term commences November 1, 2017 and continues through November 31, 2026 at a starting rate of $3,525 a month that escalates after the first year. The Company subleases this property to a related party (see disclosures below under "Springfield Suites"). As of September 30, 2021, Company eliminates this rental income in consolidation.

In September 2019, the Company entered into a 4-year lease for the occupancy of the Company's new corporate office located in Boca Raton, Florida. The lease requires the Company to pay a starting base rental fee of $4,285 per month with yearly increases thereafter. As of November 23, 2020, the Company added an additional 2,000 rentable square feet to its current lease under the same terms and conditions.

In January 2019, the Company entered into a 5-year lease for the occupancy of real estate and a building located in Hillsboro, Oregon. The lease requires the Company to pay a starting base rental fee of $9,696 per month with yearly increases thereafter.

Pursuant to the execution of a sale lease back agreement with the Company's Wallis property, a/k/a Never Again, the Company in May 2021, entered into a 15-year lease for the Wallis commercial building from an unrelated third party located in New York, NY. The lease requires the Company to pay a starting base rental fee of $31,500 plus an additional estimated triple net charges per month including real estate taxes in which the base rental fee escalates each year by approximately 2.5%. All taxes (including reconciling real estate taxes), maintenance and utilities are included and paid monthly and reserved until payments are due. In addition, the Company also remitted $60,000 for a security deposit to the landlord.

As of September 30, 2021, the Company has acquired interests in several entities more fully described in Note 6 and Note 8. As part of those interests, the Company has commitments to fund the acquisition of licenses and permits to allow for the cultivation and sale of cannabis and related products in the United States. As of September 30, 2021, Company estimates that its investees will need up to approximately $200,000 to complete the acquisition of licenses and permits, to fund the buildout or expansion of facilities to fully operate in their respective cannabis markets, which will encompass several years of development.

In December 2020, the Company filed a preliminary short form document with the securities regulatory authorities in each of the provinces of British Columbia, Alberta and Ontario in connection with a marketed public offering of units of the Company. The Offering is being led by Canaccord Genuity Corp. Each Unit shall be comprised of one common share in the capital of the Company and one common share purchase warrant of the Company Each Warrant is exercisable into one common share at an exercise price to be determined in the context of the market. The final pricing of each Unit, the exercise price of each Warrant, and the term of each Warrant will be determined in the context of the market prior to the filing of the final short form document in respect of the Offering. The net proceeds raised under the Offering will be used for working capital and general corporate purposes.

As of September 30, 2021 the Company executed an Agency Agreement and in consideration of the services rendered by the Agent and in connection with the Offering, the Company has agreed to pay the Agent, on the Closing Date a commission equal to 7% of the gross proceeds of the Offering (including in respect of any exercise of the Over-Allotment Option, if any) payable in cash (the "**Agent's Commission**"), subject to a reduced fee equal to 1% for Units sold to certain purchasers designated by the Company on a president's list (the "**President's List**"). In addition the Agent will receive a number of share purchase warrants (the "**Broker Warrants**") to purchase up to that number of shares of common stock of the Company (each, a "**Broker Share**") that is equal to 7% of the aggregate number of Units issued under the Offering (including any Additional Units (as hereinafter defined) issued upon exercise of the Over-Allotment Option, if any), subject to a reduced number of Broker Warrants equal to 3.5% of the Units sold to purchasers on the President's List, at an exercise price of $0.55 CAD per Broker Share, exercisable for a period of 24 months following the Closing Date. Pursuant to the Agency Agreement, the Company also agreed to pay to the Agent a corporate finance fee of $100,000 CAD (the "**Corporate Finance Fee**"), such Corporate Finance Fee to be payable as to $50,000 CAD in cash and as to $50,000 CAD by the issuance of 90,909 shares of common stock of the Company (the "**Corporate Finance Fee Shares**") at the Offering Price. After deducting the Agent's Commission (assuming no President's List purchasers), the estimated expenses of the Offering of $350,000 CAD and the cash portion of the Corporate Finance Fee, which will be paid out of the general funds of the Company. The Company has also granted to the Agent an over-allotment option (the "**Over-Allotment Option**"), exercisable in whole or in part, at the Agent's sole discretion, to purchase up to an additional 15% of the number of Units sold pursuant to the Offering, being up to an additional 2,590,909 Units in the case of the Maximum Offering (the "**Additional Units**"), each Additional Unit to be comprised of one Unit Share and one Warrant, at the Offering Price to cover the Agent's over-allocation position, if any, and for market stabilization purposes. The Over-Allotment Option is exercisable, in whole or in part, at any time or times until the date that is 30 days immediately following the Closing Date. A purchaser who acquires Additional Units forming part of the Agent's over-allocation position acquires such Additional Units under this Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. If the Over-Allotment Option is exercised in full, the total Price to the Public, Agent's Commission and Net Proceeds to the Company (before deducting expenses of the Offering and assuming no President's List purchasers) will be $9,200,000 CAD, $644,000 CAD and $8,556,000 CAD, respectively, in the case of the Minimum Offering and, $10,925,000 CAD, $764,750 CAD and $10,160,250 CAD, respectively, in the case of the Maximum Offering. Pursuant to the terms of the Agency Agreement, all subscription funds received from subscribers will be retained in trust by the Agent until the Minimum Offering is obtained. Once the Minimum Offering has been obtained, the sale of the Units shall be completed in accordance with the Agency Agreement. To date, all funds have been subscribed and will be held in escrow for final approval. Additionally, the Company entered into an offering led by Canaccord Genuity Corp. (the "Agent") on a 'commercially reasonable efforts' basis and consisted of the sale of 16,926,019 Units (including 1,471,291 Units pursuant to the partial exercise of the over-allotment option by the Agent) at a price of C$0.55 per Unit for aggregate gross proceeds of C$10,309,210 (including C$809,210.05 pursuant to the partial exercise of the over-allotment option by the Agent). Each Unit is comprised of one share in the common stock of the Company (each a "Unit Share") and one share purchase warrant of the Company (each, a "Warrant"). Each Warrant is exercisable to acquire one share in the common stock of the Company (each, a "Warrant Share") until April 23, 2023 at a price per Warrant Share of C$0.68, subject to adjustment in certain events. The net proceeds raised under the Offering will be used for working capital and in furtherance of some or all of the business objectives described in the final short form prospectus of the Company dated April 19, 2021 (the "Final Prospectus"). The Company has given notice to list the Unit Shares and the Warrant Shares on the Canadian Securities Exchange (the "Exchange"). Listing will be subject to the Company fulfilling all of the requirements of the Exchange. Concurrent with the Offering, the Company also conducted a non-brokered offering in the United States of 972,092 units of the Company at a price of US$0.43 per unit for aggregate gross proceeds of approximately US$420,000 under the terms of a registration statement on Form S-1, as amended, filed with the United States Securities and Exchange Commission under the U.S. Securities Act on January 5, 2021.

Legal Proceedings

D.H. Flamingo, Inc. v. Department of Taxation, *et. al.*

On February 27, 2020, a subsidiary of the Company (YMY Ventures, LLC) was served with a Summons and Second Amended Complaint in a matter pending in the District Court of Clark County Nevada (Case # A-19-787004-B) which is styled "D.H. Flamingo, Inc. v. Department of Taxation, ***et. al.***" (the DOT Litigation"). In this matter, the Plaintiff is alleging that certain parties (including YMY Ventures, LLC) received Conditional Recreational Marijuana Establishment Licenses, while certain other parties (including Plaintiff) were denied licenses. In the matter, Plaintiff seeks declaratory relief, injunctive relief, relief from violation of procedural and substantive due process, violation of equal protection, unjust enrichment, judicial review of the entire matter, together with a Petition for Writ of Mandamus. The Plaintiff seeks damages in an unspecified amount. Thereafter, on April 20, 2020, YMY Ventures, LLC filed a Notice of Non-Participation and Request for Dismissal. The Company believes it will ultimately be dismissed from the action without any liability exposure. Notwithstanding, there is no guarantee at this time that this will occur, and the ultimate result of the matter could potentially be the loss of YMY Ventures, LLC's Conditional Recreational Marijuana Establishment License. This matter has now been fully resolved without any financial exposure on the part of the Company.

Chord Advisors, LLC v. Stem Holdings, Inc., *et. al.*

On June 5, 2020 Chord Advisors, LLC ("Chord") filed a Complaint in the Circuit Court of the Fifteenth Judicial District in and for Palm Beach County, Florida (Case # 502020CA006097) alleging that Stem Holdings, Inc. owes Chord approximately $260,000 on account of fees for accounting services accrued pursuant to a Letter of Agreement dated October 2019. On July 6, 2020, the Company filed an Answer and Affirmative Defenses to the Complaint. This matter has now been fully resolved without any material financial exposure to of the Company.

Lili Enterprises, LLC adv. YMY Ventures and OPCO, LLC

In July 2020, a dispute arose with the Company's joint venture partner in connection with the Company's operations in the State of Nevada. In this regard, the Company's joint venture partner claims that it is owed certain amounts totaling approximately $307,500 pursuant to the joint venture Operating Agreement. On the other hand, the Company claims that the joint venture partner is in breach of its agreements with the Company and that the Company has heretofore advanced over $1 million in excess of its commitments under the Operating Agreement. This matter has now been fully resolved without any material financial exposure on the part of the Company.

TrueFarma

This arbitration arose from the plaintiff's claim that Driven adversely impacted their business. This matter was settled and the arbitration was dismissed on September 29, 2021 in consideration of mutual general releases among the parties. As a result, the matter has now been fully resolved without any financial exposure on the part of the Company.

Additionally, the Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business.

20. Subsequent events

Subsequent to September 30, 2021, Treevana Wellness, a Georgia based company was awarded a Medical Cannabis License of which the Company has a 2.5% equity investment in consideration for services.

Subsequent to September 30, 2021, we received gross proceeds of approximately $40,000 from the exercise of warrants and $238,000 from subscription agreements.

On December 17, 2021, pursuant to a Share Exchange Agreement, the Company sold Driven Deliveries and its subsidiaries to the shareholders of Budee, Inc. in a transaction which STEM fully divested its interest in Driven Deliveries and its subsidiaries. Included in the terms of the Share Exchange Agreement, the shareholders of Budee, and a prior officer of Driven Deliveries returned approximately 11.5 million shares of the Company's common stock and assumed approximately $7.1 million of the Company's liabilities. Notwithstanding, the Company will continue to be responsible for $210,753 of accounts payable assumed in the acquisition of Driven Deliveries.

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

None

ITEM 9A. CONTROLS AND PROCEDURES.

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

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

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 ("Exchange Act"), the Company's management, including the Company's Chief Executive Officer ("CEO") (the Company's principal executive officer) and Chief Financial Officer ("CFO") (the Company's principal financial and accounting officer), has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2021 to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The principal basis for this conclusion is the lack of segregation of duties within our financial function and the lack of an operating Audit Committee.

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

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

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

We carried out an assessment, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our internal controls over financial reporting, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of September 30, 2021. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in ***Internal Control — Integrated Framework (2013)***. Based on that assessment and on those criteria, our CEO and CFO concluded that our internal control over financial reporting was not effective as of September 30, 2021. The principal basis for this conclusion is (i) failure to engage sufficient resources regarding our accounting and reporting obligations during our startup and (ii) failure to fully document our internal control policies and procedures.

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

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

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

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

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

Name	Age	Position with the Company
Steven Hubbard	74	Interim President, Interim Chief Executive Officer and Director
Garrett M. Bender	61	Director
Lindy Snider	61	Director
Dennis Suskind	76	Director
Brian Hayek	37	Officer and Director
Robert L. B. Diener	73	Director

Steven Hubbard (74)

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

Garrett M. Bender (61)

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

Lindy Snider (61)

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

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

Dennis Suskind (76)

Mr. Suskind has been a director of the Company since May 2020. During his career, he has worked jointly with the Commodity Futures Trading Commission (CFTC) to develop hedge exemptions and went on to build the most significant global precious metals arbitrage business. His team traveled worldwide to educate producers and consumers on the reasons for using futures as their pricing medium to bring credibility to these markets. He has served as Vice Chairman of the Commodity Exchange (COMEX), Vice Chairman of the New York Mercantile Exchange (NYMEX), a member of the Board of Directors Futures Industrial Association, and a member of the Board of International Precious Metals Institute. Mr. Suskind was elected as an inaugural member to the Futures Industry Association's Hall of Fame in 2005.Suskind was elected to hold a Town Council seat in the Town of Southampton, New York. He has also served as President of the Board of Directors of the Arthur Ashe Institute for Urban Health, as a member of the President's Council of the Peconic Land Trust, a founding member of Mt. Sinai's Hospital Associates, a board member of the Nature Conservancy, and a board member of the Collegiate School and Marymount Schools in New York. In 2005 the Preservation League of New York State presented Mr. Suskind with its Pillar of New York Award.

Brian Hayek (37)

Mr. Hayek has been an officer and director of the Company since December 2020, having previously served in various capacities as President, Chief Financial Officer, Treasurer, Secretary and a member of the Board of Directors of Driven Deliveries, Inc. from November 2017 through February 28, 2020, Mr. Hayek was a co-founder of Driven Deliveries, Inc. Prior thereto, Mr. Hayek joined ResMed in 2017 creating new services for ResMed's Software as a Service (SaaS) Business Unit. Prior to ResMed, Mr. Hayek spent 5 years at Qualcomm holding roles in Qualcomm's security division. Before joining the private sector, Mr. Hayek spent 11 years on active duty with the United States Marine Corps commanding scout snipers in Afghanistan, serving as an Intelligence Officer in the Middle East, and holding various roles in communications and information technology. Mr. Hayek holds a B.S. in Electrical Engineering from San Diego State University and has an M.B.A. from USC's Marshall School of Business.

Robert L. B. Diener (73)

Mr. Diener has been the principal of the Law Offices of Robert Diener for over twenty years. He has nearly 50 years of experience as an attorney, senior corporate executive and director, counsel and advisor. The focus of his legal practice is corporate and securities law, mergers and acquisitions, finance and real estate. He has an extensive background and experience in corporate governance, public accounting and finance and strategic planning.

Mr. Diener currently serves as counsel to public and private companies, investors and companies which are focused on formation or acquisition of public companies in the United States. His principal focus is on "going public" transactions and as "virtual general counsel" to smaller publicly-reporting companies. His experience runs the full gamut from corporate finance, mergers and acquisitions, investment activities, corporate governance, state and federal securities law compliance and major contract negotiations.

During his career, Mr. Diener has served as President, CEO and a member of the board of American Health Properties, Inc. (NYSE), then one of the largest real estate investment trusts in the country (now part of Healthpeak Properties Inc. with $15 billion in assets); a senior executive of American Medical International, Inc. (NYSE), one of the country's largest health care services providers; Chairman of the Board and CEO of a publicly traded (NASDAQ) telecommunications company and a partner in a boutique investment banking group. He also has extensive experience in international business, having had direct responsibility for transactions and development projects in the United Kingdom, Spain, Germany, Switzerland, Greece, Egypt, Singapore, Australia, Israel, Hong Kong, Japan, Korea, Malaysia, Mexico, Brazil, Venezuela, Bolivia and Ecuador

Mr. Diener has served as a member or advisor to the boards of many public and private companies, including over 20 individual for-profit and not-for-profit hospitals and health care facilities. He has previously served as a director of the Federation of American Hospital Systems and the National Association of Real Estate Investment Trusts. He is currently a director of Prime Healthcare Services, Inc.

Mr. Diener has been an active member of the State Bar of California since 1973. He received a Bachelor of Arts degree in Social Sciences and Communications from the University of Southern California in 1969 and a Juris Doctor degree (*Magna Cum Laude*) from the University of Santa Clara School of Law in 1973, where he was the Business Editor of the Law Review. He has a strong working knowledge of U.S. generally accepted accounting principles (GAAP). Mr. Diener served in the United States Marine Corps Reserve from 1969 through 1975.

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

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

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

Compensation Committee Interlocks and Insider Participation

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

Family Relationships

None.

Committees of the Board of Directors

Our board of directors has established the following committees: an audit committee, a compensation committee and a nominating/corporate governance committee. Our board of directors may from time to time establish other committees.

The Board of Directors has approved charters for each committee.

Audit Committee

The Audit Committee is currently composed of Robert L. B. Diener, Chairman, and Garrett Bender together with Steven Hubbard. Mr. Diener and Mr. Bender are independent directors and each considered financially literate.

The purpose of the Audit Committee is to oversee the processes of accounting and financial reporting of the Company and the audits and financial statements of the Company. The Audit Committee's primary duties and responsibilities are to:

- Monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting and legal compliance.
- Monitor the independence and performance of the Company's independent auditors and the Company's accounting personnel.
- Provide an avenue of communication among the independent auditors, management, the Company's accounting personnel, and the Board.
- Appoint and provide oversight for the independent auditors engaged to perform the audit of the financial statements.
- Discuss the scope of the independent auditors' examination.
- Review the financial statements and the independent auditors' report.
- Review areas of potential significant financial risk to the Company.
- Monitor compliance with legal and regulatory requirements.
- Solicit recommendations from the independent auditors regarding internal controls and other matters.
- Make recommendations to the Board.
- Resolve any disagreements between management and the auditors regarding financial reporting.
- Prepare the report required by Item 407(d) of Regulation S-K, as required by the rules of the Securities and Exchange Commission (the "SEC").
- Perform other related tasks as requested by the Board.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the organization. The Committee has the ability to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

Compensation Committee

The Compensation Committee is currently composed of Lindy Snider, Chairperson, and Robert L. B. Diener together with Steven Hubbard. Mr. Diener and Ms. Snider are independent directors

The Compensation Committee's responsibilities include, but are not limited to, the responsibilities which are required under the corporate governance rules of NASDAQ, including the responsibility to determine compensation of the Chairman of the Board, the Chief Executive Officer ("CEO"), the President and all other executive officers. The Compensation Committee's actions shall generally be related to overall considerations, policies, and strategies.

The following are specific duties and responsibilities of the Compensation Committee:

- Review the competitiveness of the Company's executive compensation programs to ensure (a) the attraction and retention of corporate officers, (b) the motivation of corporate officers to achieve the Company's business objectives, and I the alignment of the interests of key leadership with the long-term interests of the Company's stockholders.

- Review and determine the annual salary, bonus, stock options, other equity-based incentives, and other benefits, direct and indirect, of the Company's executive officers, including development of an appropriate balance between short-term pay and long-term incentives while focusing on long-term stockholder interests.

- Determine salary increases and bonus grants for the Chairman of the Board, the CEO, the President, and all other executive officers of the Company.

- Review and approve corporate goals and objectives for purposes of bonuses and long- term incentive plans.

- Review and approve benefit plans, including equity incentive plans, and approval of individual grants and awards.

- Review and approve employment or other agreements relating to compensation for the Chairman of the Board, the CEO, the President, and the other executive officers of the Company.

- Review and discuss with management the Company's CD&A and recommend to the Board that the CD&A be included in the Post-Effective Amendment #1 to Form S-1 and/or proxy statement in accordance with applicable SEC rules.

- If required by SEC rules, provide a Compensation Committee Report on executive compensation to be included in the Company's annual proxy statement in accordance with applicable SEC rules.

- Perform an annual evaluation of the performance of the Chairman of the Board, the CEO, the President, and the other executive officers.

- Perform an annual review of non-employee director compensation programs and recommend changes thereto to the Board when appropriate.

- Plan for executive development and succession.

- Review and approve all equity-based compensation plans and amendments thereto, subject to any stockholder approval under the listing standards of NASDAQ.

- Recommend an appropriate method by which stockholder concerns about compensation may be communicated by stockholders to the Committee and, as the Committee deems appropriate, to respond to such stockholder concerns.

- Perform such duties and responsibilities as may be assigned by the Board to the Committee under the terms of any executive compensation plan, incentive compensation plan or equity-based plan.

- Review risks related to the Company's compensation policies and practices and review and discuss, at least annually, the relationship between the Company's risk management policies and practices, corporate strategy and compensation policies and practices.

Nominating/Corporate Governance Committee

The Nominating/Corporate Governance Committee is currently composed of Garrett Bender, Chairman, Dennis Suskind together with Steven Hubbard. Messrs. Bender and Suskind are independent directors

The Nominating/Corporate Governance Committee's responsibilities include, but are not limited to, the responsibilities which are required under the corporate governance rules of NASDAQ, including the responsibilities to identify individuals who are qualified to become directors of the Company, consistent with criteria approved by the Board, and make recommendations to the Board of nominees, including Stockholder Nominees (nominees whether by appointment or election at the Annual Meeting of Stockholders) to serve as a directors of the Company. To fulfill its purpose, the responsibilities and duties of the Nominating/Corporate Governance Committee are as follows:

- Evaluate, in consultation with the Chairman of the Board and Chief Executive Officer ("CEO"), the current Composition, size, role and functions of the Board and its committees to oversee successfully the business and affairs of the Company in a manner consistent with the Company's Corporate Governance Guidelines and make recommendations to the Board for approval.

- Determine, in consultation with the Chairman of the Board and CEO, director selection criteria consistent with the Company's Corporate Governance Guidelines and conduct searches for prospective directors whose skills and attributes reflect these criteria.

- Assist in identifying, interviewing, and recruiting candidates for the Board.

- Evaluate, in consultation with the Chairman of the Board and CEO, nominees, including nominees nominated by stockholders in accordance with the provisions of the Company's Bylaws, and recommend nominees for election to the Board or to fill vacancies on the Board.

- Before recommending an incumbent, replacement, or additional director, review his or her qualifications, including capability, availability to serve, conflicts of interest, and other relevant factors.

- Evaluate, in consultation with the Chairman of the Board and CEO and make recommendations to the Board concerning the appointment of directors to Board committees and the selection of the Chairman of the Board and the Board committee chairs consistent with the Company's Corporate Governance Guidelines.

- Determine the methods and execution of the annual evaluations of the Board's and each Board committee's effectiveness and support the annual performance evaluation process.

- Evaluate and make recommendations to the Board regarding director retirements, director re-nominations and directors' changes in circumstances in accordance with the Company's Corporate Governance Guidelines.

- Review and make recommendations to the Board regarding policies relating to directors' compensation, consistent with the Company's Corporate Governance Guidelines.

- As set forth herein, monitor compliance with, and at least annually evaluate and make recommendations to the Board regarding, the Company's Corporate Governance Guidelines and overall corporate governance of the Company.

- Assist the Board and the Company's officers in ensuring compliance with an implementation of the Company's Corporate Governance Guidelines.

- Develop and implement continuing education programs for all directors, including orientation and training programs for new directors.

- Annually evaluate and make recommendations to the Board regarding the Committee's performance and adequacy of this Charter.

- Review the Code of Ethics periodically and propose changes thereto to the Board, if appropriate.

- Review requests from outside the Committee for any waiver or amendment of the Company's Code of Business Conduct and Ethics and recommend to the Board whether a particular waiver should be granted or whether a particular amendment should be adopted.

- Oversee Committee membership and qualifications and the performance of members of the Board.

- Review and recommend changes in (i) the structure and operations of Board Committees, and (ii) Committee reporting to the Board.

- Make recommendations annually to the Board as to the independence of directors under the Corporate Governance Guidelines.

- Review and make recommendations to the Board regarding the position the Company should take with respect to any proposals submitted by stockholders for approval at any annual or special meetings of stockholders.

- Regularly report on Committee activities and recommendations to the Board.

- Perform any other activities consistent with this Charter, the Company's Certificate of Incorporation and Bylaws, as amended from time to time, the NASDAQ company guide, and any governing law, as the Board considers appropriate and delegates to the Committee.

Code of Business Conduct and Ethics

Effective May 11, 2020, the Board of Directors (the "Board") of Stem Holdings, Inc. (the "Company") adopted a Code of Ethics (the "Code of Ethics") applicable to the Company and all subsidiaries and entities controlled by the Company and the Company's directors, officers and employees. Compliance with the Code of Ethics is required of all Company personnel at all times. The Company's senior management is charged with ensuring that the Code of Ethics and the Company's corporate policies will govern, without exception, all business activities of the Company. The Code of Ethics addresses, among other things, the use and protection of Company assets and information, avoiding conflicts of interest, corporate opportunities and transactions with business associates and document retention.

Legal Proceedings

There are no material proceedings to which any director or officer, or any associate of any such director or officer, is a party that is adverse to our Company or any of our subsidiaries or has a material interest adverse to our Company or any of our subsidiaries. No director or executive officer has been a director or executive officer of any business which has filed a bankruptcy petition or had a bankruptcy petition filed against it during the past ten years. No director or executive officer has been convicted of a criminal offense or is the subject of a pending criminal proceeding during the past ten years. No director or executive officer has been the subject of any order, judgment or decree of any court permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, or banking activities during the past ten years. No director or officer has been found by a court to have violated a federal or state securities or commodities law during the past ten years.

Officers and Directors Indemnification

Under our Articles of Incorporation and Bylaws of the corporation, the Company may indemnify an officer or director who is made a party to any proceeding, including a lawsuit, because of his or her position, if he or she acted in good faith and in a manner he or she reasonably believed to be in the Company's best interest. The Company may advance expenses incurred in defending a proceeding. To the extent that the officer or director is successful on the merits in a proceeding as to which he or she is to be indemnified, the Company must indemnify the officer or director against all expenses incurred, including attorney's fees. With respect to a derivative action, indemnity may be made only for expenses actually and reasonably incurred in defending the proceeding, and if the officer or director is judged liable, then only by a court order. The indemnification coverage is intended to be to the fullest extent permitted by applicable laws.

Regarding indemnification for liabilities arising under the Securities Act of 1933, which may be permitted to officers or directors under applicable state law, the Company is informed that, in the opinion of the Securities and Exchange Commission, indemnification is against public policy, as expressed in the Act and is, therefore, unenforceable.

ITEM 11. EXECUTIVE COMPENSATION.

The following is a summary of the compensation we paid for each of the last two years ended September 30, 2021 and 2020, respectively (i) to the persons who acted as our principal executive officer during our fiscal year ended September 30, 2021 and (ii) to the person who acted as our next most highly compensated executive officer other than our principal executive officer who was serving as an executive officer as of the end of our last fiscal year.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings ($)	All other Compensation ($)	Total ($)
Adam Berk	2021	$300,000	$ -	$540,000	$ -	$ -	$ -	$ -	$840,000
CEO	2020	$300,000	$ -	$ -	$ -	$ -	$ -	$ -	$300,000
Steven Hubbard	2021	$ 75,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 75,000
CFO	2020	$ 45,000	$ -	$ 26,000	$ 21,000	$ -	$ -	$ -	$ 92,000
Garrett M. Bender	2021	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Director	2020	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Lindy Snider	2021	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Director	2020	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ellen B. Deutsch	2021	$253,000	$ -	$ -	$ -	$ -	$ -	$ -	$253,000
EVP & COO	2020	$240,000	$ -	$ 82,000	$ 26,000	$ -	$ -	$ -	$348,000
Dennis Suskind	2021	$ -	$ -	$ 93,750	$100,000	$ -	$ -	$ -	$193,750
Director	2020	$ -	$ -	$ 16,250	$ 35,191	$ -	$ -	$ -	$ 51,441
Brian Hayek	2021	$ 35,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 35,000
Director	2020	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Robert Diener	2021	$ 30,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 30,000
Director	2020	$ 30,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 30,000
Salvatore Villanueva	2021	$ 21,900	$ -	$ -	$ -	$ -	$ -	$ -	$ 21,900
Director	2020	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

OUTSTANDING EQUITY AWARDS

Grants of Plan-Based Awards

Name	Grant Date Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price ($)	Option Expiration Date
Dennis Suskind, Director	6/11/2021	-	250,000	0.40	6/10/2025
Brian Hayek, Director	12/28/2018	-	1,538,910	0.10	12/27/2025
Adam Berk	3/4/2019	-	200,000	0.10	3/2/2026

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (1)
Equity compensation plans approved by security holders	-	-	-
Equity compensation plans not approved by security holders	750,000	0.79	33,748,293
Total	750,000	0.79	33,748,293

(1) As of September 30, 2021

Warrants Issued to Management

Name	Grant Date	Number of Securities Underlying Unexercised Exercisable Warrants	Number of Securities Underlying Unexercised Exercisable Warrants	Warrant Exercise Price($)	Warrant Expiration Date
None					

Employment Agreements

Adam Berk—On June 1, 2017, the Company entered into an Employment Agreement for an initial term of one year, subject to automatic renewals for additional one-year periods until terminated, with the remaining term at all times being not less than one year. The Employment Agreement provides for a base salary of $10,000 per month. Mr. Berk also received a restricted stock grant of 100,000 shares of Company common stock and options to purchase 50,000 shares of Company common stock exercisable for a period of three years at an exercise price of $2.40 per share. At the end of the initial one-year term of the Employment Agreement, and assuming that the term is extended, Mr. Berk is entitled to receive an additional restricted stock grant of 100,000 shares of Company common stock and options to purchase 50,000 shares of Company common stock at the then market value, exercisable for a period of three years. Subsequent to September 30, 2021, the Board of Directors of the Company accepted Mr. Berk's resignation as CEO of the Company.

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

Compensation of Directors

Independent members of the Board of Directors receive periodic stock option grants (see Grants of Plan-Based Awards, above). At this time, there is no other board of director compensation plan in place.

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

The following table sets forth certain information with respect to the beneficial ownership of our voting securities by (i) any person or group owning more than 5% of any class of voting securities, (ii) each director, (iii) our chief executive officer and president and (iv) all executive officers and directors as a group as of September 30, 2021. Unless noted, the address for the following beneficial owners and management is 2201 NW Corporate Blvd., Suite 205, Boca Raton, FL 33431.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner (1)	Percent of Class
Common Stock	Adam Berk (2)	7,648,174	3.31%
Common Stock	Steven Hubbard (3)	1,053,007	0.45%
Common Stock	Garrett M. Bender (4)	5,631,887	2.44%
Common Stock	Lindy Snider (5)	209,044	0.00%
Common Stock	Ellen B. Deutsch (6)	100,000	0.00%
Common Stock	Dennis Suskind (7)	950,000	0.41%
Common Stock	Robert Diener (8)	118,000	0.00%
Common Stock	Brian Hayek (9)	6,376,662	2.28%
Common Stock	All executive officers and directors as a group	22,086,774	9.57%

(1) In determining beneficial ownership of our Common Stock, the number of shares shown includes shares which the beneficial owner may acquire upon exercise of debentures, warrants and options which may be acquired within 60 days. In determining the percent of Common Stock owned by a person or entity on September 30, 2021, (a) the numerator is the number of shares of the class beneficially owned by such person or entity, including shares which the beneficial ownership may acquire within 60 days of exercise of debentures, warrants and options; and (b) the denominator is the sum of (i) the total shares of that class outstanding on September 30, 2021 (230,738,620 shares of Common Stock) and (ii) the total number of shares that the beneficial owner may acquire upon exercise of the debentures, warrants and options. Unless otherwise stated, each beneficial owner has sole power to vote and dispose of its shares.

(2) Includes 7,448,174 shares and options to purchase 200,000 shares.

(3) Includes 853,007 shares and options to purchase 200,000 shares

(4) Includes 5,631,887 shares and no options to purchase shares

(5) Includes 159,044 shares and options to purchase 50,000 shares

(6) Includes 100,000 shares granted under Employment Agreement

(7) Includes 450,000 shares and options to purchase 500,000 shares

(8) Includes 68,000 shares and options to purchase 50,000 shares

(9) Includes 4,337,752 shares and options to purchase 1,538,910 shares and warrants to purchase 500,000 shares

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

Related Party Transactions

Please refer to Financial Statements, Notes 13,14 and 17, which are incorporated in their entirety by this reference.

Director Independence

As of December 31, 2021, of our six (6) directors, Garrett M. Bender, Lindy Snider, Dennis Suskind and Robert Diener are considered "independent" in accordance with Rule 4200(a)(15) of the NASDAQ Marketplace Rules. The remaining two (2) directors are not considered "independent".

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Audit Fees

The aggregate fees billed by our principal accountant for the audit of our annual financial statements, review of financial statements included in the quarterly reports and other fees that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal years ended September 30, 2021, and September 30, 2020, respectively, were approximately $630,000 and $398,000.

Tax Fees

The aggregate fees billed for professional services rendered by our principal accountant for tax compliance, tax advice and tax planning for the fiscal years ended September 30, 2021, and 2020, respectively, were approximately $112,000 and $21,000.

All Other Fees

The other aggregate fees billed for professional services rendered by our principal accountant for work related to registration statements, the Canadian prospectus, and consulting work related to the Employee Retention Tax Credit for the fiscal years ended September 30, 2021, and 2020, respectively, were approximately $269,000 and $34,000.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. FINANCIAL STATEMENTS

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

- Report of L J Soldinger Associates, LLC, Independent Registered Certified Public Accounting Firm
- Consolidated Balance Sheets as of September 30, 2021 and 2020 (audited)
- Consolidated Statements of Operations for the year ended September 30, 2021 and September 30, 2020 (audited)
- Statements of Stockholders' Equity for the years ended September 30, 2021 and September 30, 2020 (audited)
- Statement of Cash Flows for the years ended September 30, 2021 and September 30, 2020 (audited)
- Notes to Financial Statements (audited)

2. FINANCIAL STATEMENT SCHEDULES

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

3. EXHIBITS

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

Exhibit No.	Identification of Exhibit
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Stem Holdings, Inc.
(Registrant)

By: */s/ Steve Hubbard*
Steve Hubbard
Chief Executive Officer and Director (Principal Executive Officer)

Date January 13, 2022

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

Date January 13, 2022

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

By: */s/ Steve Hubbard*
Steve Hubbard
Chief Executive Officer and Director (Principal Executive Officer)

Date January 13, 2022

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

Date January 13, 2022

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

Date January 13, 2022

By: */s/ Lindy Snider*
Lindy Snider
Director

Date January 13, 2022

By: */s/ Dennis Suskind*
Dennis Suskind
Director

Date January 13, 2022

By: */s/ Brian Hayek*
Brian Hayek
Director

Date January 13, 2022

By: */s/ Robert L. B. Diener*

Robert L. B. Diener
Director

Date January 13, 2022

EXHIBIT 31.1

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

I, Steve Hubbard, certify that:

1. I have reviewed this Form 10-K for the period ended September 30, 2021 of Stem Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 13, 2022

/s/ Steve Hubbard
Steve Hubbard
Principal Executive Officer

EXHIBIT 31.2

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

I, Steven Hubbard, certify that:

1. I have reviewed this Form 10-K for the period ended September 30, 2021 of Stem Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 13, 2022

/s/ Steven Hubbard
Steven Hubbard
Principal Financial Officer

EXHIBIT 32.1

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

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

The annual report on Form 10-K for the period ended September 30, 2021 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

January 13, 2022

/s/ Steve Hubbard
Steve Hubbard
Principal Executive Officer

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

EXHIBIT 32.2

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

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

The annual report on Form 10-K for the period ended September 30, 2021 (the “Form 10-K”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

January 13, 2022

/s/ Steven Hubbard
Steven Hubbard
Principal Financial and Accounting Officer

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