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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended **June 30, 2022**

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from to

STEM HOLDINGS, INC.
(Exact name of small business issuer as specified in its charter)

Nevada	000-55751	61-1794883
(State of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

There were 226,259,085 shares outstanding of registrant’s common stock, par value $0.001 per share, as of August 10, 2022.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒

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PART I

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2022 (unaudited)	September 30, 2021 *
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,400	$ 5,464
Accounts receivable, net of allowance for doubtful accounts	260	260
Note receivable	3	430
Inventory	3,105	3,126
Prepaid expenses and other current assets	1,000	2,187
Assets held for sale	-	9,324
Total current assets	7,768	20,791
Property and equipment, net	9,446	12,598
Investment in equity method investees	-	1,008
Investments in affiliates	-	230
Deposits and other assets	13	13
Right of use asset	7,041	4,235
Intangible assets, net	10,201	10,856
Goodwill	7,429	7,429
Due from related party	28	28
Total assets	**$ 41,926**	**$ 57,188**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	2,356	2,547
Convertible notes, net	1,723	2,940
Convertible notes, net related party	-	223
Current maturities of long-term debt	400	-
Short term notes and advances	733	650
Due to related party	-	1
Derivative liability	340	-
Lease liability	570	467
Warrant liability	94	2,277
Liabilities held for sale	-	6,801
Total current liabilities	**6,216**	**15,906**
Lease liability - long term	6,627	3,855
Finance liability	-	1,093
Long-term debt, mortgages	1,825	2,100
Total liabilities	**14,668**	**22,954**
Commitments and contingencies (Note 17)	-	**-**
Shareholders' equity		
Preferred stock, Series A; $0.001 par value; 50,000,000 shares authorized, none outstanding as of June 30, 2022 and September 30, 2021	-	-
Preferred stock, Series B; $0.001 par value; 50,000,000 shares authorized, none outstanding as of June 30, 2022 and September 30, 2021	-	-
Common stock, $0.001 par value; 750,000,000 shares authorized; 224,406,856 and 230,738,620 shares issued, issuable and outstanding as of June 30, 2022 and September 30, 2021, respectively	224	230

Additional paid-in capital	148,320	148,249
Stock subscription receivable	-	(135)
Accumulated deficit	(122,746)	(115,750)
Total Stem Holdings stockholder’s equity	**25,798**	**32,594**
Noncontrolling interest	1,460	1,640
Total shareholders’ equity	27,258	34,234
Total liabilities and shareholders’ equity	**$ 41,926**	**$ 57,188**

* Derived from audited information

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

STEM HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except share and per share amounts)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Revenues	$ 4,171	$ 5,428	$ 12,517	$ 16,186
Cost of goods sold	3,500	3,948	10,691	10,969
Gross Profit	671	1,480	1,826	5,217
Operating expenses:				
Consulting fees	104	614	633	2,676
Professional fees	551	849	2,543	2,635
General and administration	2,555	3,489	8,745	8,385
Impairment of intangible assets	-	-	795	-
Total operating expenses	3,210	4,952	12,716	13,696
Loss from operations	(2,539)	(3,472)	(10,890)	(8,479)
Other income (expenses), net				
Interest expense	(247)	(243)	(605)	(1,598)
Change in fair value of derivative liability	-	199	-	441
Change in fair value of warrant liability	357	6,422	2,287	234
Foreign currency exchange gain (loss)	89	50	62	29
Other income	2,009	715	2,110	2,003
Gain on extinguishment of debt	803	-	803	-
Other loss	-	-	(30)	-
Gain from disposal of subsidiary	-	-	831	-
Total other income	3,011	7,143	5,458	1,109
Income (loss) from continuing operations	472	3,671	(5,432)	(7,370)
Loss from discontinued operations, net of tax	-	(1,082)	(1,745)	(1,946)
Net income (loss)	$ 472	$ 2,589	$ (7,177)	$ (9,316)
Net loss attributable to non-controlling interest	(68)	(65)	(180)	(170)
Net income (loss) attributable to Stem Holdings	$ 540	$ 2,654	$ (6,997)	$ (9,146)
Net income (loss) per share:				
Basic and diluted net income (loss) from continuing operations, per share	$ 0.00	$ 0.01	$ (0.02)	$ (0.06)
Basic and diluted net income (loss) from discontinued operations, per share	$ 0.00	$ 0.00	$ (0.01)	$ (0.01)
Basic and diluted net income (loss), per share	$ 0.00	$ 0.01	$ (0.03)	$ (0.07)
Weighted-average shares outstanding				
Basic	224,607,322	208,137,694	226,199,289	138,026,212
Diluted	224,607,322	285,450,257	226,199,289	138,026,212

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

STEM HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(UNAUDITED)
(in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Subscription Receivable	Accumulated Deficit	Total Stem Holdings Shareholders' Equity	Non-Controlling Interest	Total Shareholders' Equity
	Shares	Amount						
Balance as of September 30, 2021	**229,988,620**	**230**	**148,249**	**(135)**	**(115,750)**	**32,594**	**1,640**	**34,234**
Common stock issued for cash	3,223,611	3	282	-	-	285	-	285
Issuance of common stock in connection with consulting agreement	130,000	-	30	-	-	30	-	30
Stock based compensation	1,000,000	1	219	-	-	220	-	220
Issuance of common stock related to interest expense	555,953	1	66	-	-	67	-	67
Common stock cancelled related to discontinued operations	(11,506,700)	(12)	(1,169)	135	-	(1,046)	-	(1,046)
Issuance of options in connection with employment agreement	-	-	292	-	-	292	-	292
Net loss	-	-	-	-	(4,064)	(4,064)	(123)	(4,187)
Balance as of December 31, 2021	223,391,484	$ 223	$ 147,969	$ -	$ (119,814)	$ 28,378	$ 1,517	$ 29,895
Issuance of common stock in connection with employment agreement	1,000,000	1	67	-	-	68	-	68
Stock based compensation								
Issuance of common stock related to interest expense	-	-	-	-	-	-	-	-
Common stock cancelled related to discontinued operations	-	-	-	-	-	-	-	-
Issuance of warrants in connection with consulting agreement	-	-	158	-	-	158	-	158
Issuance of options in connection with employment agreement	-	-	19	-	-	19	-	19
Net loss	-	-	-	-	(3,472)	(3,472)	11	(3,461)
Balance as of March 31, 2022	224,391,484	$ 224	$ 148,213	$ -	$ (123,286)	$ 25,151	$ 1,528	$ 26,679
Issuance of common stock related to interest expense	15,372	-	1	-	-	1	-	1
Issuance of options in connection with employment agreement	-	-	94	-	-	94	-	94
Issuance of warrants in connection with extension of debenture maturity	-	-	12	-	-	12	-	12
Net gain (loss)	-	-	-	-	540	540	(68)	472
Balance as of June 30, 2022	224,406,856	$ 224	$ 148,320	$ -	$ (122,746)	$ 25,798	$ 1,460	$ 27,258
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	1,569,570	2	587	-	-	589	-	589
Common stock to be issued	6,833,069	7	2,863	-	-	2,870	-	2,870
Stock based compensation	1,868,750	2	560	-	-	562	-	562
Cancellation of common stock related to convertible notes	(525,400)	(1)	1	-	-	-	-	-
Issuance of common stock	501,561	1	208	-	-	209	-	209

related to rent and interest expense								
Issuance of subscription receivable	-	-	600	(600)	-	-	-	-
Issuance of warrants in connection with employment agreement	-	-	132	-	-	132	-	132
Issuance of options in connection with employment agreement	-	-	61	-	-	61	-	61
Acquisition of Driven Deliveries, Inc.	101,968,944	101	43,224	(135)	-	43,190		43,190
Net loss	-	-	-		(3,188)	(3,188)	(91)	(3,279)
Balance as of December 31, 2020	180,475,239	$ 180	$ 124,546	$ (735)	$ (54,574)	$ 69,417	$ 1,749	$ 71,166
Issuance of common stock in connection with consulting agreement	1,262,500	1	1,096	-	-	1,097	-	1,097
Issuance of common stock in connection with convertible debt	4,054,206	4	2,071	-	-	2,075	-	2,075
Issuance of common stock in connection with deposit for an asset acquisition	300,000	-	210	-	-	210	-	210
Stock based compensation	1,464,009	1	867	-	-	868	-	868
Issuance of common stock related to interest expense	164,366	1	121	-	-	122	-	122
Issuance of warrants in connection with employment agreement	-	-	18	-	-	18	-	18
Issuance of options in connection with employment agreement	-	-	78	-	-	78	-	78
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	5,263,996	5	2,060	-	-	2,065	-	2,065
Issuance of common stock related to Prospectus	2,333,990	2	1,000	-	-	1,002	-	1,002
Net loss	-	-	-	-	(8,612)	(8,612)	(14)	(8,626)
Balance as of March 31, 2021	195,818,306	$ 195	$ 137,506	$ (735)	$ (63,186)	$ 73,780	$ 1,735	$ 75,515
Issuance of common stock related to cash purchase	1,465,117	1	629	-	-	630	-	630
Issuance of common stock in connection with consulting agreement	950,000	1	524	-	-	525	-	525
Stock based compensation	581,750	1	245	-	-	246	-	246
Issuance of common stock in connection with convertible debt	5,426,053	5	2,832	-	-	2,837	-	2,837
Issuance of common stock related to exercise of options	10,000	-	1	-	-	1	-	1
Issuance of common stock related to Private Placement Memorandum, net	58,140	-	-	-	-	-	-	-
Issuance of common stock in related to commission expense	90,909	-	40	-	-	40	-	40
Cancellation of common stock related to investments	(694,233)	-	1	-	-	1	-	1
Issuance of options in connection with employment agreement	-	-	35	-	-	35	-	35
Issuance of warrants in connection with employment agreement	-	-	71	-	-	71	-	71
Issuance of common stock related to Prospectus	16,942,350	17	7,259	-	-	7,276	-	7,276
Recognition of non-controlling	-	-	462	-	-	462	(227)	235

interest related to asset acquisition								
Share exchange agreement adjustment	-	-	-	-	-	-	257	257
Net loss	-	-	-	-	2,655	2,655	$ (66)	2,589
Balance as of June 30, 2021	**220,648,392**	**$ 220**	**$ 149,605**	**$ (735)**	**$ (60,531)**	**$ 88,559**	**$ 1,699**	**$ 90,258**

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

STEM HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	For the Nine Months Ended June 30,	
	2022	2021
Cash flows from operating activities		
Net loss	$ (7,177)	$ (9,316)
Loss from discontinued operations, net of tax	1,745	1,946
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	691	2,073
Issuance of common stock in connection with consulting agreements	188	2,211
Issuance of common stock related to rent and interest expense	1	331
Impairment of investments	288	-
Depreciation and amortization	1,247	1,370
Amortization of intangible assets	655	2,375
Gain on extinguishment of debt	(803)	-
Amortization of debt discount	13	606
Gain on sale of equity method investments	-	(200)
Recognition of derivative liability	-	(441)
Change in fair value of warrant liability	(2,183)	(234)
Foreign currency adjustment	(62)	(29)
Gain from disposal of subsidiary	(831)	-
Gain on sale of property	(1,155)	(766)
Other	103	209
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	-	106
Prepaid expenses and other current assets	217	(2,828)
Inventory	21	(818)
Other assets	1,402	-
Accounts payable and accrued expenses	(124)	(3,248)
Net cash used in continuing operating activities	(5,764)	(6,653)
Net cash provided by (used in) discontinued operating activities	340	(1,946)
Net cash used in operating activities	(5,424)	(8,599)
Cash flows from investing activities		
Investment in equity method investees, Michigan & Massachusetts	-	250
Purchase of property and equipment	(206)	(425)
Project costs	-	(179)
Sale of property	2,173	1,505
Cash received related to sale of equity method investment	1,651	-
Issuance of note receivable	-	(560)
Investments	(288)	-
Related party payments	(1)	-
Net cash provided by continuing investing activities	3,329	591
Net cash provided by investing activities	3,329	591
Cash flows from financing activities		
Proceeds from the issuance of common stock	285	17,713
Notes payable and advanced proceeds	625	-
Repayments of notes payable and advances	-	(63)
PPP and debt forgiveness	-	(1,031)
Repayments of notes payable	(879)	(1,634)
Net cash provided by financing activities from continuing operations	31	14,985
Net cash provided by financing activities from discontinued operations	-	-
Net cash provided by financing activities	31	14,985
Net (decrease) increase in cash and cash equivalents	(2,064)	6,977

Cash and cash equivalents at the beginning of the period		5,464		2,129
Cash and cash equivalents at the end of the period	$	3,400	$	9,106
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	308	$	1,063
Cash paid for taxes	$	-	$	-
Supplemental disclosure of noncash activities:				
Non-cash repayment of finance liability	$	1,092	$	-
Financed Insurance	$	449	$	373
Interest paid in the form of common stock	$	67	$	-
Issuance of common stock related to separation agreement	$	-	$	290
Conversion of debt and accrued interest to equity	$	-	$	4,913
Issuance of common stock for settlement	$	-	$	5,440
Refinancing of mortgage	$	-	$	1,100

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

STEM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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; and e-commerce delivery 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, and California. As of June 30, 2022, Stem had ownership interests in 23 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 and (6) cannabis dispensary licenses.

The Company has nine wholly-owned subsidiaries, including 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 the acquisition of entities or be acquired by entities directly in the production and sale of cannabis. Driven Deliveries, Inc., a former wholly-owned subsidiary, was sold during the quarter ended December 31, 2021 (see Note 3).

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 June 30, 2022, the Company had approximate balances of cash and cash equivalents of 3.4 million, and working capital of approximately $1.6 million, and an accumulated deficit of $123 million.

These unaudited 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.

The United States federal government regulates drugs in large part through the Controlled Substances Act or CSA. Marijuana, which refers to certain parts and derivatives of the cannabis plant, is classified as a Schedule I controlled substance. As a Schedule I controlled substance, the federal Drug Enforcement Agency, or DEA, considers marijuana to have a high potential for abuse, no currently accepted medical use in treatment in the United States, and a lack of accepted safety for use of the drug under medical supervision. According to the U.S. federal government, cannabis having a concentration of tetrahydrocannabinol, or THC, greater than 0.3% is marijuana. Cannabis with a THC content below 0.3% is classified as hemp. The scheduling of marijuana as a Schedule I controlled substance is inconsistent with what we believe to be widely accepted medical uses for marijuana by physicians, researchers, customers, and others. Moreover, as of December 31, 2021, and despite the conflict with U.S. federal law, at least 36 states, the District of Columbia, the Commonwealth of the Northern Mariana Islands, Guam, Puerto Rico, and the U.S. Virgin Islands have legalized marijuana for medical use. Eighteen of those states and the District of Columbia, the Commonwealth of the Northern Mariana Islands, and Guam have legalized the adult use of cannabis for recreational purposes. In November 2020, voters in Arizona, Montana, New Jersey, and South Dakota voted by referendum to legalize marijuana for adult use, and voters in Mississippi and South Dakota voted to legalize marijuana for medical use, although South Dakota's adult-use measure has been declared unconstitutional by the State Supreme Court. In 2021, the states of Connecticut, New Mexico, New York, and Virginia enacted laws legalizing the adult use of cannabis.

Marijuana is largely regulated at the state level in the United States. State laws regulating marijuana conflict with the CSA, making marijuana use and possession federally illegal. Although certain states and territories of the United States authorize medical or adult-use marijuana production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of marijuana and any related drug paraphernalia is illegal. Although our activities are compliant with the applicable state and local laws in those states where we maintain such licenses, strict compliance with state and local laws with respect to cannabis may neither absolve us of liability under United States federal law nor provide a defense to any federal criminal action that may be brought against us.

In 2013, as more and more states began to legalize medical and/or adult-use marijuana, the federal government attempted to provide clarity on the incongruity between federal law and these state-legal regulatory frameworks. Until 2018, the federal government provided guidance to federal agencies and banking institutions through a series of DOJ memoranda. The most notable of this guidance came in the form of a memorandum issued by former U.S. Deputy Attorney General James Cole on August 29, 2013, which we refer to as the Cole Memorandum.

The Cole Memorandum offered guidance to federal agencies on how to prioritize civil enforcement, criminal investigations, and prosecutions regarding marijuana in all states and quickly set a standard with which marijuana-related businesses would comply. The Cole Memorandum put forth eight prosecution priorities:

1. Preventing the distribution of marijuana to minors;

2. Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels;

3. Preventing the diversion of marijuana from states where it is legal under state law in some form to other states;

4. Preventing the state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;

5. Preventing violence and the use of firearms in the cultivation and distribution of marijuana;

6. Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;

7. Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and

8. Preventing marijuana possession or use on federal property.

On January 4, 2018, former United States Attorney General Sessions rescinded the Cole Memorandum by issuing a new memorandum to all United States Attorneys, which we refer to as the Sessions Memo. Rather than establishing national enforcement priorities particular to marijuana-related crimes in jurisdictions where certain marijuana activity was legal under state law, the Sessions Memo simply rescinded the Cole Memorandum and other Department of Justice memorandums providing prosecutorial guidance on state and tribally authorized medical and adult-use cannabis activities and instructed that "[i]n deciding which marijuana activities to prosecute... with the [DOJ's] finite resources, prosecutors should follow the well- established principles that govern all federal prosecutions." Namely, these include the seriousness of the offense, history of criminal activity, deterrent effect of prosecution, the interests of victims, and other principles.

On January 21, 2021, Joseph R. Biden, Jr. was sworn in as President of the United States. President Biden's Attorney General, Merrick Garland, was confirmed by the United States Senate on March 10, 2021. It is not yet known whether the Department of Justice, under President Biden and Attorney General Garland, will re-adopt the Cole Memorandum or announce a substantive marijuana enforcement policy. During his Senate confirmation, Merrick Garland told Senator Cory Booker (D-NJ), "It does not seem to me useful the use of limited resources that we have to be pursuing prosecutions in states that have legalized and are regulating the use of marijuana, either medically or otherwise." Such statements are not official declarations or policies of the DOJ and are not binding on the DOJ, any United States Attorney, or the United States federal courts. Substantial uncertainty regarding United States federal enforcement remains. To date, there have been no new federal cannabis memorandums issued by the Biden Administration or any published change in federal enforcement policy.

Nonetheless, there is no guarantee that state laws legalizing and regulating the sale and use of marijuana will not be repealed or overturned or that local government 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 marijuana (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. Currently, in the absence of uniform federal guidance, as had been established by the Cole Memorandum, enforcement priorities are determined by respective United States Attorneys.

As an industry best practice, despite the rescission of the Cole Memorandum, we abide by the following standard operating policies and procedures, which are designed to ensure compliance with the guidance provided by the Cole Memorandum:

1. Continuously monitor our operations for compliance with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;

2. Ensure that our cannabis-related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted only for adult-use, the products are only sold to individuals who meet the requisite age requirements);

3. Implement policies and procedures to prevent the distribution of our cannabis products to minors;

4. Implement policies and procedures in place to avoid the distribution of the proceeds from our operations to criminal enterprises, gangs, or cartels;

5. Implement an inventory tracking system and necessary procedures to reliably track inventory and prevent the diversion of cannabis or cannabis products into those states where cannabis is not permitted by state law or across any state lines in general;

6. Monitor the operations at our facilities so that our state-authorized cannabis business activity is not used as a cover or pretense for trafficking of other illegal drugs or engaging in any other illegal activity; and

7. Implement quality controls so that our products comply with applicable regulations and contain necessary disclaimers about the contents of the products to avoid adverse public health consequences from cannabis use and discourage impaired driving.

In addition, we frequently conduct background checks to confirm that the principals and management of our operating subsidiaries are of good character and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or the use of firearms in the cultivation, manufacturing, or distribution of cannabis. We also conduct ongoing reviews of the activities of our cannabis businesses, the premises on which they operate, and the policies and procedures related to the possession of cannabis or cannabis products outside of the licensed premises.

Moreover, in recent years, certain temporary federal legislative enactments that protect the medical marijuana and hemp industries have also been in effect. For instance, certain marijuana businesses receive a measure of protection from federal prosecution by operation of temporary appropriations measures that have been enacted into law as amendments (or "riders") to federal spending bills passed by Congress and signed by Presidents Obama, Trump, and, most recently, President Biden. For instance, in the Appropriations Act of 2015, Congress included a budget "rider" that prohibits DOJ from expending any funds to enforce any law that interferes with a state's implementation of its own medical marijuana laws. The rider originally known as the "Rohrbacher-Farr" Amendment after its original lead sponsors is now known as the "Joyce" Amendment after its current sponsor. Originally, a Republican-controlled House and Democratic-controlled Senate passed the Rohrbacher-Farr Amendment. The bill was "a bipartisan appropriations measure that looks to prohibit the DEA from spending funds to arrest state-licensed medical marijuana patients and providers." Subsequently, the rider t has been included in multiple budgets passed by successive Congresses controlled by both major political parties. Most recently, on February 18, 2022, the Amendment was renewed through the signing of an additional stopgap spending bill, H.R.6617 - Further Additional Extending Government Funding Act, effective through March 11, 2022. While the Amendment has been included in successive appropriations legislation or resolutions since 2015, its inclusion or non-inclusion is subject to political change.

Notably, Joyce Amendment has applied only to medical marijuana programs and has not provided the same protections to enforcement against adult-use activities. If the Amendment is no longer in effect, the risk of federal enforcement and override of state marijuana laws would increase.

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 accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The unaudited condensed financial statements included herein are unaudited. Such financial statements, in the opinion of management, contain all adjustments necessary to present fairly the financial position and results of operations as of and for the periods indicated. All such adjustments are of a normal recurring nature. These interim results are not necessarily indicative of the results to be expected for the year ending September 30, 2022, or for any other period. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, and because of this, for further information, readers should refer to the financial statements and footnotes included in its Form 10-K for the fiscal year ended September 30, 2021, filed on January 13, 2022. The Company believes that the disclosures are adequate to make the interim information presented not misleading

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.

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 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 June 30, 2022, and September 30, 2021, 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 June 30, 2022, the reserve for doubtful accounts was approximately $74,000.

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 $795 thousand was recorded for the nine months ended June 30, 2022. During the nine months ended June 30, 2021, 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 nine months ended June 30, 2022, the Company recorded $0 of investee losses.

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 nine months ended June 30, 2022, and 2021, the Company determined that there were not any 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 . 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. On December 15, 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 the Company fully divested all of its interests in Driven Deliveries and all of its subsidiaries. Included in the terms of the Share Exchange Agreement, the shareholder of Budee, Inc., and 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 Companies liabilities. Notwithstanding, the Company continues to be responsible for approximately $210,000 of accounts payable assumed in the acquisition of Driven Deliveries.

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 June 30, 2022, 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 approximately $331,000 and $860,000, respectively for the three and nine months ended June 30, 2022, and approximately $337,000 and $763,000, respectively for the three and nine months ended June 30, 2021. The Company has ten operating leases consisting with remaining lease terms ranging from 10 months to 181 months.

Lease Costs

	Nine Months Ended June 30, 2022	Nine Months Ended June 30, 2021
Components of total lease costs:		
Operating lease expense	$ 860	$ 763
Total lease costs		

	$ 860	$ 763

Lease positions as of June 30, 2022

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

	June 30, 2022
Assets	
Right of use asset	$ 7,041
Total assets	$ 7,041
Liabilities	
Operating lease liabilities – short term	$ 570
Operating lease liabilities – long term	6,627
Total lease liability	$ 7,197

Lease Terms and Discount Rate

Weighted average remaining lease term (in years) – operating lease	12.33
Weighted average discount rate – operating lease	11.00%

Cash Flows

	Nine Months Ended June 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:	
ROU amortization	$ 860
Cash paydowns of operating liability	$ (860)

The future remaining minimum lease payments under the leases are as follows for the years ended September 30:

2022	$ 599
2023	1,386
2024	1,189
2025	1,088
2026	1,060
Thereafter	8,983
Total future minimum lease payments	14,305
Less: Lease imputed interest	(7,108)
Total	$ 7,197

Disaggregation of Revenue

For the period ended June 30, 2022, 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 three months ended June 30, 2022, and 2021 respectively:

Three Months Ended June 30,	**2022**	**2021**
Revenue		
Wholesale	$ 1,126	$ 1,555
Retail	3,630	5,637
Rental	-	8
Other	66	78
Total revenue	4,822	7,278
Discounts and returns	(651)	(1,850)
Net Revenue	$ 4,171	$ 5,428

The following table illustrates our revenue by type related to the nine months ended June 30, 2022, and 2021 respectively:

Nine Months Ended June 30,	**2022**	**2021**
Revenue		
Wholesale	$ 3,256	$ 3,879
Retail	11,217	16,334
Rental	-	17
Product Sales	-	229
Other	106	336
Total revenue	14,579	20,795
Discounts and returns	(2,062)	(4,609)
Net Revenue	$ 12,517	$ 16,186

Geographical Concentrations

As of June 30, 2022, 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 June 30, 2022, and September 30, 2021, are as follows:

Potentially dilutive share-based instruments:	June 30, 2022	September 30, 2021
Convertible notes	37,059,926	3,696,311
Options to purchase common stock	6,030,685	7,140,447
Unvested restricted stock awards	-	-
Warrants to purchase common stock	65,783,059	62,965,833
	108,873,670	73,802,591

Advertising Costs

The Company follows the policy of charging the cost of advertising to expense as incurred. Advertising expense was approximately $47 thousand and $430 thousand three months ended June 30, 2022, and 2021, respectively. Advertising expense was approximately $217 thousand and $749 thousand for nine months ended June 30, 2022, and 2021, 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 June 30, 2022, the Company recognized additional operating liabilities of approximately $7.2 million, with corresponding ROU assets of approximately $7.0 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. Discontinued Operations, Assets and Liabilities Held for Sale

Discontinued Operations

On December 15, 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 the Company fully divested all of its interests in Driven Deliveries and all of its subsidiaries. Included in the terms of the Share Exchange Agreement, the shareholder of Budee, Inc., and 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 Companies liabilities. Notwithstanding, the Company continues to be responsible for approximately $210,000 of accounts payable assumed in the acquisition of Driven Deliveries.

The following table presents the assets and liabilities associated with the divestiture of Driven Deliveries; Inc. as follows (in thousands):

	December 15, 2021	September 30, 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 47	$ 106
Inventory	509	382
Prepaid expenses and other current assets	242	887
Total current assets	798	1,375
Property and equipment, net	4	12
Right of use asset	327	328
Intangible assets, net	7,049	7,609
Total assets	**$ 8,178**	**$ 9,324**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	7,551	5,967
Short term notes and advances	3	7
Settlement payable	-	92
Acquisition notes payable	-	409
Lease liability	218	218
Total current liabilities	**7,772**	**6,693**
Lease liability - long term	108	108
Total liabilities	**$ 7,880**	**$ 6,801**

The total assets and total liabilities in the above table for the year ended September 30, 2021, are presented in the balance sheet as of September 30, 2021, as Assets held for sale and Liabilities held for sale.

The following table presents the operating results related to the divestiture of Driven Deliveries; Inc. (in thousands):

	Nine Months Ended June 30,	
	2022	2021
Revenues	$ 3,805	$ 10,387
Cost of goods sold	3,772	9,372
Gross Profit	33	1,015
Operating expenses:		
Consulting fees	4	111
Professional fees	24	201
General and administration	1,749	2,830
Total operating expenses	1,777	3,142
Loss from operations	**(1,744)**	**(2,127)**
Other income (expenses)		
Interest expense	(1)	-
Other income	-	181
Total other income (expense)	(1)	181
Net loss	**$ (1,745)**	**$ (1,946)**

4. Property, Plant & Equipment

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

	June 30, 2022	September 30, 2021
Land	$ 1,151	$ 1,451
Automobiles	93	74
Signage	19	19
Furniture and equipment	2,588	3,033
Leasehold improvements	3,532	3,474
Buildings and property improvements	7,460	10,126
Computer software	59	56
	14,902	18,233
Accumulated depreciation	(5,456)	(5,635)
Property and equipment, net	$ 9,446	$ 12,598

Depreciation expense was approximately $400 thousand and $500 thousand for the three months ended June 30, 2022, and 2021, respectively. Depreciation expense was approximately $1.3 and $1.4 million for the nine months ended June 30, 2022, and 2021, respectively. Depreciation expense is included in general and administrative expense.

5. Inventory

Inventory consists of the following (in thousands):

	June 30, 2022	September 30, 2021
Raw materials	$ 682	$ 866
Work-in-progress	718	543
Finished goods	1,705	1,717
Total Inventory	**$ 3,105**	**$ 3,126**

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 periods ended June 30, 2022, and September 30, 2021, due to management's assessment of the inventory on hand.

6. 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 June 30, 2022, 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 approximately $200,000 as of June 30, 2022.

Prepaid and other current assets comprised of the following:

	June 30, 2022	September 30, 2021
Prepaid expenses	$ 574	$ 732
ERTC credits	200	605
Deposits and other current assets	226	850
Total prepaid expenses and other current assets	$ 1,000	$ 2,187

7. Equity method investments

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. During the three and nine months ended June 30, 2021, the Company did not recognize a loss on investment related to TIL. During the three and nine months ended June 30, 2021, the Company recognized a minimal loss on investment related to TIL. During the nine months ended June 30, 2022, the Company recorded impairment expense of approximately $288,000 related to its investment in TIL.

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, 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%. As of June 30, 2022, pursuant to a secondary stock purchase agreement, the Company sold its equity investment in CGS in consideration for $1.65 million in cash.

8. 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. Pursuant to a note purchase agreement dated April 13, 2022, the Company sold the note for $150,000 thousand simultaneous with its equity investment in CGS in consideration for $1.65 million in cash.

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 June 30, 2022, pursuant to a secondary stock purchase agreement, the Company sold its equity investment in CGS in consideration for $1.65 million in cash.

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 June 30, 2022, and September 30, 2021, the principal balance of the note was $3,196 and $7,990, respectively.

9. 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 June 30, 2022, 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 June 30, 2022, 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%.

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. Subsequent to further investigation, due to related religious reasons, the Department of Zoning and Planning will not issue a license, therefore, impairing this investment.

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. For the period ended June 30, 2022, the Company, pursuant to a securities purchase agreement sold all of these shares to a third party for $200,000, incurring a loss of $30,000.

10. Non-Controlling Interests

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

	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	

	As of June 30, 2022			
	NCI Equity Share	Net Loss Attributable to NCI	NCI in Consolidated Entities	Non-Controlling Ownership %
NVD RE Corp.	$ 553	$ (29)	$ 524	36.2%
Western Coast Ventures, Inc.	842	$ (3)	839	49.0%
YMY Ventures, Inc.	299	$ 4	303	50.0%
Michigan RE 1, Inc.	(54)	$ (152)	(206)	49.0%
	$ 1,640	$ (180)	$ 1,460	

11. Business Combination

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 acquisition above occurred October 1, 2020.

	Three Months Ended June 30, 2021	Nine Months Ended June 30, 2021
Revenue	$ 4,878	$ 17,006
Net loss	$ (3,811)	$ (8,239)

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, 2020, nor are they necessarily indicative of the results that may occur in the future.

12. Intangible Assets, net

Intangible assets as of June 30, 2022, and September 2021 (in thousands):

	Estimated Useful Life	Cannabis Licenses	Tradename	Customer Relationship	Non-compete	Technology	Accumulated Amortization	Net Carrying Amount
Balance as September 30, 2021		$ 20,092	$ 951	$ 645	$ 220	$ 418	$ (3,861)	$ 18,465
YMY Ventures	15	-	-	-	-	-	(37)	(37)
Western Coast Ventures, Inc.	15	-	-	-	-	-	-	-
Yerba Buena	3-15 years	-	-	-	-	-	(129)	(129)
Foothill (7LV)	15	-	-	-	-	-	(392)	(392)
Driven Deliveries	10-15 years	(9,315)	(413)	-	-	(413)	2,533	(7,608)
JV Retail 3	3-15 years	-	-	-	-	-	(27)	(27)
JV Retail 4	3-15 years	-	-	-	-	-	(26)	(26)
JV Extraction	10-15 years	-	-	-	-	-	(45)	(45)
Other	5	-	-	-	-	-	-	-
Balance as March 31, 2022		$ 10,777	$ 538	$ 645	$ 220	$ 5	$ (1,984)	$ 10,201

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 three and nine months ended June 30, 2022, was $220 and $659, respectively. Amortization expense for the three and nine months ended June 30, 2021, was $1,086 and $2,380, respectively.

The following table is the future remaining expected amortization for the fiscal years ended September 30:

2022	$	183
2023		829
2024		829
2025		829
2026		829
Thereafter		6,702
	$	10,201

13. Accounts payable and accrued expenses

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

		June 30, 2022		September 30, 2021
Accounts payable		1,866	$	1,105
Accrued credit cards		18		25
Accrued interest		69		87
Accrued payroll		215		713
Accrued sales tax liability		13		148
Other		175		469
Total Accounts Payable and Accrued Expenses	**$**	**2,356**	**$**	**2,547**

14. 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 June 30, 2022, and September 30, 2021:

		June 30, 2022		September 30, 2021
Equipment financing	$	22	$	30
Insurance financing		264		261
Promissory note		447		359
Total notes payable and advances	**$**	**733**	**$**	**650**
Current portion of long-term debt	**$**	**400**	**$**	**-**
Long-term mortgages, net of current portion		1,825		2,100
Total long-term debt, net of current portion	**$**	**1,825**	**$**	**2,100**

Equipment financing

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 June 30, 2022, and 2021, the obligation outstanding is $0 and $442, 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.

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. 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. As of June 30, 2022, the obligation outstanding is $459.

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 June 30, 2022, the balance outstanding is $21,684.

Insurance financing

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. In February 2022, the total outstanding obligation was paid.

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 June 30, 2022, the obligation has been paid.

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 June 30, 2022, the obligation has been paid.

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 June 30, 2022, the obligation has been paid.

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 June 30, 2022, the obligation outstanding has been paid.

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 June 30, 2022, the obligation has been paid.

Effective July 16, 2021, the Company entered into a 12-month premium finance agreement for an insurance policy in the principal amount of $11,830. The note bears an annual interest rate of 1.06%. The Company paid $4,113 as a down payment in June 2021, the note requires the Company to make 9 monthly payments of $771 over the remaining term of the note. As of June 30, 2022, the obligation outstanding has been paid.

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 June 30, 2022, the obligation outstanding is $1,992.

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. Additionally, 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. During the period ended June 30, 2022, a new location was added to the policy, therefore, creating a new finance agreement requiring 7 payments of $12,188 which has been satisfied.

Effective October 26, 2021, the Company entered into a 12-month premium finance agreement for an insurance policy in the principal amount of $10,411. The note bears an annual interest rate of 10.65%. The Company paid $1,751 as a down payment in October 2021, the note requires the Company to make 10 monthly payments of $866 over the remaining term of the note. As of June 30, 2022, the obligation outstanding is $1,733.

Effective February 9, 2022, the Company entered into a 12-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $430,657. The note bears an annual interest rate of 7.64%. The Company paid $86,131 as a down payment on February 14, 2022, the note requires the Company to make 10 monthly payments of $35,795 over the remaining term of the note. As of June 30, 2022, the obligation outstanding is $214,772.

Effective February 24, 2022, the Company entered into a 12-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $17,551. The note bears an annual interest rate of 7.37%. The Company paid $18,033 as a down payment on February 24, 2022, the note requires the Company to make 10 monthly payments of $1,327 over the remaining term of the note. As of June 30, 2022, the obligation outstanding is $7,962.

Effective April 6, 2022, the Company entered into a 12-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $29,060. The note bears an annual interest rate of 9.65%. The Company paid $5,812 as a down payment on April 6, 2022, the note requires the Company to make 9 monthly payments of $2,697.47 over the remaining term of the note. As of June 30, 2022, the obligation outstanding is $18,882.

Effective May 23, 2022, the Company entered into a 12-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $7,599. The note bears an annual interest rate of 11.50%. The Company paid $2,121 as a down payment on May 23, 2022, the note requires the Company to make 9 monthly payments of $640.41 over the remaining term of the note. As of June 30, 2022, the obligation outstanding is $5,764.

Effective April 5, 2022, the Company entered into a 12-month premium finance agreement in partial consideration for an insurance policy in the principal amount of $20,931. The note bears an annual interest rate of 10.50%. The Company paid $5,347 as a down payment on April 5, 2022, the note requires the Company to make 9 monthly payments of $1,808.22 over the remaining term of the note. As of June 30, 2022, the obligation outstanding is $12,658.

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 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 June 30, 2022, the obligation outstanding is $250,000 and the balance is $198,135, net of debt discount of $51,865. The Company was notified that the maturity dates on these notes have been extended for the near-term.

In April 2022, the Company has completed a private placement of a $500,000 unsecured promissory note and 500,000 common share purchase warrants. The Note becomes due and payable in three months, subject to extension by the Company for an additional three months upon payment of a $5,000 extension fee to the lender. The Note bears interest at rate of 10% per annum payable at maturity. The Company may prepay the outstanding principal amount of the obligation together with all accrued and unpaid interest, without penalty, at any time prior to the maturity date of the note. Each warrant entitles the holder thereof to purchase one common share at a price of 0.07 for a period of thirty-six (36) months after closing. As of June 30, 2022, the Company made a payment of $250,000 leaving a balance outstanding of $250,000. A subsequent payment of $250,000 has been tendered satisfying the entire obligation.

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 was 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 former CEO and Director of the Company. As of June 30, 2022, the Company paid off the existing debt of $400,000 and procured another mortgage in the amount of $450,000. This obligation has no personal guarantee; however, a corporate guarantee has been perfected. The new interest is 12% on a three-year term.

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 was 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 former CEO and Director of the Company. As of June 30, 2022, the obligation outstanding is $400,000. Subsequently, the Company has exercised its right to extend the maturity date of the note by six months. The new maturity date of the loan is October 1, 2022.

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 was 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 former CEO and Director of the Company. As of June 30, 2022, the Company paid off the existing debt of $700,000 and procured another mortgage in the amount of $775,000. This obligation has no personal guarantee; however, a corporate guarantee has been perfected. The new interest is 12% on a two-year term.

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 former CEO and Director of the Company. As of June 30, 2022, 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 June 30, 2022, the balance due totals $400,000.

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

2022	$	400
2023		600
2024		775
2025		450
2026		-
Thereafter		-
		2,225
Less current portion of long-term debt:		(400)
	$	1,825

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 is due November 2022, the maturity date of the mortgage, and was secured by the underlying property. The note was cross guaranteed by the former 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. As of June 30, 2022, the Company executed a sale lease back agreement with the Company's Mulino property, and entered into a 15-year lease with an unrelated third party located in Englewood, CO. The lease requires the Company to pay a starting base rental fee of $29,167 plus additional estimated triple net charges per month including 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 and paid monthly. This transaction resulted in net proceeds to the Company in the amount of $2.2 million.

15. 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.

In June 2022, 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 initially 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$0.20 per Common Share and the convertible debentures of the Company issued in connection with the financing will be repriced to C$0.10 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 ; 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 30 days' prior written notice if the closing trading price of the shares of common stock of the Company's common shares exceeds C$0.80 for a period of 10 consecutive trading days on the CSE, (iii) the payment of 5% of the principle amount. Share purchase warrants of the Company will be issued in connection this repricing at 167 common share warrants for each $1,000 debenture unit held. As of June 30, 2022, the convertible debt related to the above debentures is $1.7 million, which is net of a debt discount of $1.2 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 for the period ended June 30, 2022, in USD, (*in thousands*):

	Warrant Liability		Derivative Liability	
Balance as of September 30, 2021	**$**	**67**	**$**	**592**
Change in fair value		(67)		(592)
Balance as of March 31, 2022		**-**		**-**
Options issued		-		340
Balance as of June 30, 2022	**$**	**-**	**$**	**340**

16. 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 the period ended June 30, 2022 (in thousands):

	Fair value measured at June 30, 2022							
	Fair value		Quoted prices in active markets (Level 1)		Significant other observable inputs (Level 2)		Significant unobservable inputs (Level 3)	
Warrant liability	$	94	$	-	$	-	$	94
Embedded derivative liability		340		-		-		340
Total fair value	$	434	$	-	$	-	$	434

There were no transfers between Level 1, 2 or 3 during the period ended June 30, 2022.

The following table presents changes in Level 3 liabilities measured at fair value for the period ended June 30, 2022. 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	Derivative Liability	Total
Balance – September 30, 2021	$ 2,277	**$ -**	$ 2,277
Warrants granted for services	-	-	-
Change in fair value	(1,739)	-	(1,739)
Balance – December 31, 2021	538	-	538
Issuance of warrants - compensation	104	-	104
Change in fair value	(192)	-	(192)
Balance – March 31, 2022	450	-	450
Options issued	-	340	340
Change in fair value	(356)	-	(356)
Balance – June 30, 2022	$ 94	$ 340	$ 434

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 June 30, 2022, and September 2021 is as follows:

	Warrant Liability	
	As of June 30, 2022	As of September 30, 2021
Strike price	$ 0.49	$ 0.48
Contractual term (years)	1.69	2.57
Volatility (annual)	114%	74%
Risk-free rate	3.0%	1.0%
Dividend yield (per share)	0%	0%

	Embedded Derivative Liability	
	As of June 30, 2022	As of September 30, 2021
Strike price	$ 0.08	$ 0.90
Contractual term (years)	3.1	0.8
Volatility (annual)	133%	55%
Risk-free rate	3.14%	0.08%
Dividend yield (per share)	0.00%	0.00%
Credit spread	14% to 16%	14% to 16%

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.

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 June 30, 2022, and September 30, 2021.

Common shares

During the quarter ended December 31, 2021, the Company issued 3,223,611 shares of its common stock related to a stock purchase agreement for cash of $285,000.

During the quarter ended December 31, 2021, the Company issued 130,000 shares of its common stock related to various consulting agreements for a fair value of approximately $30,000 or $0.23 per share.

During the quarter ended December 31, 2021, the Company issued 1,000,000 shares of its common stock valued at $220,000 as stock-based compensation.

During the quarter ended March 31, 2021, the Company issued 1,464,009 shares of its common stock valued at $868,250 as stock-based compensation.

During the quarter ended March 31, 2021, the Company issued 1,262,500 shares of its common stock related to various consulting agreements for a fair value of approximately $1,097,500 or $0.87 per share.

During the quarter ended March 31, 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 quarter ended March 31, 2021, the Company converted $1,975,965 of principal balance related to convertible debt in exchange for 4,054,206 shares of the company's common stock. The Company also issued 164,366 common shares in satisfaction of interest payments owed of $121,631.

During the quarter ended March 31, 2021, the Company issued 500,000 shares of its common stock in connection with a settlement agreement for settlement liability of $5,439,855.

Pursuant to a prospectus the Company has been tendered $1.0 million and will issue 2,332,506 common shares.

During the quarter ended March 31, 2021, the Company raised $4,934,376 for the issuance of 12,097,065 shares of its common stock in connection with a private placement memorandum.

During the quarter ended December 31, 2021, the Company cancelled 11,506,700 shares of the company's common stock as part of the Share Exchange Agreement, more fully described in Note 3.

During the quarter ended December 31, 2021, the Company converted $67,000 of its accrued interest related to convertible debt in exchange for 555,953 shares of the company's common stock.

During the quarter ended March 31, 2022, the Company issued 1,000,000 shares of its common stock valued at $0.068 as stock-based compensation.

During the quarter ended June 30, 2022, the Company issued 15,372 shares of its common stock valued at $0.045 as interest related to Canaccord.

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 nine months ended June 30, 2022, and 2021 were estimated using the following weighted-average assumptions:

Options:

-

	For the Three Months Ended June 30,	
	2022	2021
Exercise price	$ 0.07	$ 0.30 - $2.40
Expected term (years)	3	2.0 - 4.0
Expected stock price volatility	124%	95.7% - 188.6%
Risk-free rate of interest	2.42%	.94% - 2.96%
Expected dividend rate	0%	0%

A summary of option activity under the Company's stock option plan for the period ended June 30, 2022, 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, 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**
Expired	(717,856)	$ 1.07	$ -	-
Outstanding as of December 31, 2021	**5,980,060**	**$ 0.63**	**$ -**	**3.13**
Expired and cancelled	(1,098,959)	$ 0.32	**$ -**	**-**
Outstanding as of March 31, 2022	**4,881,101**	**$ 0.32**	**$ -**	**3.83**
Expired	(350,416)	$ 5.56	$ -	-
Granted	1,500,000	$ 0.07	$ -	2.77
Outstanding as of June 30, 2022	**6,030,685**	**$ 0.49**	**$ -**	**2.19**
Options vested and exercisable	**5,807,561**	**$ 0.49**	**$ -**	**2.19**

Estimated future stock-based compensation expense relating to unvested stock options was nominal as of June 30, 2022, and 2021. Weighted average remaining contractual life of the options is 2.19 years.

Stock-based Compensation Expense

Stock-based compensation expense for the three and nine months ended June 30, 2022, and 2021 was comprised of the following (in thousands):

	Three months ended June 30,	
	2022	2021
Stock grants	$ -	$ 525
Stock options	94	353
Warrants	-	-
Total stock-based compensation	**$ 94**	**$ 878**

	Nine months ended June 30,	
	2022	2021
Stock grants	$ 288	$ 3,642
Stock options	405	492
Warrants	158	150
Total stock-based compensation	**$ 850**	**$ 4,284**

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. For the period ended June 30, 2022, 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 June 30, 2022, Company eliminates this rental income in consolidation.

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.

In February 2019, the Company entered into a 4-year lease for the occupancy of a store front retail location in California. The lease requires the Company to pay a starting base rental fee of $3,820 per month with yearly increases thereafter.

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.

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 September 2021, the Company executed an assignment and assumption of lease for the occupancy of a store front retail location in Oregon. The lease requires the Company to pay a starting base rental fee of $4,520 per month with yearly increases thereafter.

In September 2021, the Company entered into a 5-year lease for the occupancy of a store front retail location in Oregon. The first two months of the lease rent is abated. The lease requires the Company to pay a starting base rental fee of $4,505 per month with yearly increases thereafter.

In May 2022, the Company executed a sale lease back agreement with the Company's Mulino property, and entered into a 15-year lease with an unrelated third party located in Englewood, CO. The lease requires the Company to pay a starting base rental fee of $29,167 plus additional estimated triple net charges per month including 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 and paid monthly. This transaction resulted in net proceeds to the Company in the amount of $2.2 million.

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.

Herbalcure vs Driven Deliveries, Inc.

On May 6, 2021, Herbalcure Corporation ("Herbalcure") filed a Complaint for preliminary and permanent injunction in the Superior Court of California Central District County of Los Angeles (Case # 21STCV17099) alleging that Driven Deliveries, Inc. owes Herbalcure Corporation approximately $1,700,000 on account of allegedly unpaid fees for services, gross receipts tax and sales tax. The Company has previously settled the gross receipts and sales tax liability that it believed was owed in connection with this matter. The Company disputes the alleged liability claimed by Herbalcure in excess of amounts already paid and believes that this is a liability of Driven Deliveries, Inc. and not the Company. The matter is currently in arbitration, and the Company cannot predict the final outcome.

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

20. Subsequent events

In June 2022, 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 initially 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$0.20 per Common Share and the convertible debentures of the Company issued in connection with the financing will be repriced to C$0.10 per common share. Additionally, the Debenture holders have approved the following amendments to the terms of the convertible debentures: In July 2022, the following has been formalized: extension to the maturity date of the convertible debentures to three years; 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 30 days' prior written notice if the closing trading price of the shares of common stock of the Company's common shares exceeds C$0.80 for a period of 10 consecutive trading days on the CSE, (iii) and, a payment of $141,672 was tendered for the 5% of the principle amount. Additionally, share purchase warrants of the Company will be issued in connection this repricing at 167 common share warrants for each $1,000 debenture unit held. As of June 30, 2022, the convertible debt related to the above debentures is $2.9 million.

In April 2022, the Company has completed a private placement of a $500,000 unsecured promissory note and 500,000 common share purchase warrants. The Note becomes due and payable in three months, subject to extension by the Company for an additional three months upon payment of a $5,000 extension fee to the lender. The Note bears interest at rate of 10% per annum payable at maturity. The Company may prepay the outstanding principal amount of the obligation together with all accrued and unpaid interest, without penalty, at any time prior to the maturity date of the note. Each warrant entitles the holder thereof to purchase one common share at a price of 0.07 for a period of thirty-six (36) months after closing. As of September 30, 2020, the Company made a payment of $250,000 leaving a balance outstanding of $250,000. A subsequent payment of $250,000 has been tendered satisfying the entire obligation.

In July 2022, the Company executed 7 Independent Director Agreements having their term renewable commensurate with annual shareholder meetings. The Directors shall be entitled to cash payments of $5,000 per year during the term of their respective Independent Director Agreement along with annual stock grants of 650,000 thousand shares, prorated for partial month service. Additionally, stock options may be granted at the direction of the Compensation Committee based on Company performance. The Independent Director Agreements include indemnification that are customary for agreements of this nature.

In August 2022, the Company executed a non-binding term sheet, proposing the merger of the Company with a west coast company ("Survivor"). Pursuant to the terms and conditions of the term sheet, it is contemplated, on a pro-forma basis, where the post transaction capital structure of the survivor on a fully-diluted basis would be allocated as (a) Survivor 90% and (b) the Company 10%. All warrants, options and rights of the Company are proposed to carry over to the Surviving Entity, without amendment to their terms. At the proposed closing, unless invited to continue in their positions by the Survivor, the Company's present officers and directors would resign in favor of officers and directors designated by the Survivor, provided that at least one current director of the Company shall remain in office until at least 10 days after the Company makes the proposed filing with the SEC required by Rule 14f-1 promulgated under the Securities Exchange Act of 1934, and mails the statement required by

said Rule to the Surviving Entity's shareholders of record. The Parties propose to undertake a closing of the transaction within ninety (90) days of the date the Term Sheet was executed.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward Looking Statements

This Interim Report on Form 10-Q contains, in addition to historical information, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 ("PLSRA"), Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") regarding Stem Holdings, Inc. (the "Company" or "Stem", also referred to as "us", "we" or "our"). Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements involve risks and uncertainties. Forward-looking statements include statements regarding, among other things, (a) our projected sales, profitability, and cash flows, (b) our growth strategies, (c) anticipated trends in our industries, (d) our future financing plans and (e) our anticipated needs for working capital. They are generally identifiable by use of the words "may," "will," "should," "anticipate," "estimate," "plans," "potential," "projects," "continuing," "ongoing," "expects," "management believes," "we believe," "we intend" or the negative of these words or other variations on these words or comparable terminology. These statements may be found under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Description of Business," as well as in this Form 10-Q generally. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results.

Any or all of our forward-looking statements in this report may turn out to be inaccurate. They can be affected by inaccurate assumptions we might make or by known or unknown risks or uncertainties. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" detailed in the Company's Form 10 and S-1 registration statements and matters described in this Form 10-Q generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. You should not place undue reliance on these forward-looking statements. The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to publicly update any forward-looking statements, whether as the result of new information, future events, or otherwise. We intend that all forward-looking statements be subject to the safe harbor provisions of the PSLRA.

For the three and nine months ended June 30, 2022, the financial statements have been prepared by management in accordance with the standards of the Public Company Accounting Oversight Board (United States). For the three and nine months ended June 30, 2022, the unaudited interim financial statements have been prepared by management in accordance with the condensing rules of the United States Securities and Exchange Commission.

Results of Operations

	For the Three Months Ended June 30,		Change	
($ in thousands)	**2022**	**2021**	**$**	**%**
Gross Revenue	$ 4,823	$ 6,362	(1,539)	(24)%
Discounts and returns	(652)	(934)	282	(30)%
Cost of goods sold	3,500	3,948	(448)	(11)%
Consulting fees	104	614	(510)	(83)%
Professional fees	551	849	(298)	(35)%
General and administration	2,555	3,489	(934)	(27)%
Other income, net	3,011	7,143	(4,132)	58%
Loss from discontinued operations	-	(1,082)	1,082	(100)%
Net income (loss)	**$ 471**	**$ 2,589**		

Comparison of the results of operations for the three months ended June 30, 2022, compared to the three months ended June 30, 2021

The Company had net revenues during the three months ended June 30, 2022, of $4,171 compared with $5,428 for the comparable period of 2021, the decrease in revenue was primarily related to a decrease in flower sales related to general market conditions.

Cost of goods for the three months ended June 30, 2022, amounted to $3,500 compared to $3,948 in the comparable period of the prior year. These costs include both the cost of finished product purchased for retail and the cost of cultivation and processing for the grow facilities and sold at the wholesale level.

In the three months ended June 30, 2022, we incurred consulting costs of $104 compared to $614 in the comparable period of the prior year. The decrease in consulting fees was attributed to a decrease in stock-based consulting expenses.

In the three months ended June 30, 2022, we incurred professional fees of $551 compared to $849 in the comparable period of the prior year. Those fees are primarily for legal, accounting, and related services that pertains to our being a public company in both the United States and

Canada.

In the three months ended June 30, 2022, we incurred general and administrative costs of $2,555 compared to $3,489. This decrease relates primarily to a decrease in costs related to advertising and promotion, office expenses, and salaries.

($ in thousands)	For the Nine Months Ended June 30, 2022	2021	Change $	%
Gross Revenue	$ 14,578	$ 18,883	(4,305)	(23)%
Discounts and returns	(2,061)	(2,697)	(635)	(24)%
Cost of goods sold	10,691	10,969	(278)	(3)%
Consulting fees	633	2,676	(2,043)	(76)%
Professional fees	2,543	2,635	(92)	(3)%
General and administration	8,744	8,385	359	4%
Impairment of intangibles	795	-	795	100%
Other income (expenses), net	5,458	1,109	4,349	(392)%
Loss from discontinued operations	(1,745)	(1,946)	201	10%
Net loss	**$ (7,177)**	**$ (9,316)**		

Comparison of the results of operations for the nine months ended June 30, 2022, compared to the nine months ended June 30, 2021

The Company had net revenues during the nine months ended June 30, 2022, of $12,517 compared with $16,186 for the comparable period of 2021, the decrease in revenue was primarily related to a decrease in flower sales related to general market conditions.

Cost of goods for the nine months ended June 30, 2022, amounted to $10,691 compared to $10,969 in the comparable period of the prior year. These costs include both the cost of finished product purchased for retail and the cost of cultivation and processing for the grow facilities and sold at the wholesale level.

In the nine months ended June 30, 2022, we incurred consulting costs of $663 compared to $2,676 in the comparable period of the prior year. We mitigated our consulting expenses which were stock based in the prior year.

In the nine months ended June 30, 2022, we incurred professional fees of $2,543 compared to $2,635 in the comparable period of the prior year. Those fees are primarily for legal, accounting and related services relating to our being a public company in both the United States and Canada.

In nine months ended June 30, 2022, we incurred general and administrative costs of $8,744 compared to $8,385, these costs include payroll, depreciation and amortization, insurance, rent expense and other general costs. We expect that these costs will increase as we increase our operations.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

The Company had cash of $3,400 as of June 30, 2022. On April 13, 2022, the Company closed on a stock purchase and note purchase agreement to sell its minority equity ownership interest in its Massachusetts cannabis license for a total of $1.65 million in cash.

Cash Flow

For the nine months ended June 30, 2022, and 2021

Net cash flows used in continuing operating activities was $5,764 for the nine months ended June 30, 2022, as compared net cash flow used in continuing operating activities to $6,653 for the nine months ended June 30, 2021, a change of $889.

● Net cash flow used in operating activities for the nine months ended June 30, 2022 primarily reflected a net loss of $7,177 adjusted for the add-back of non-cash items consisting of loss from discontinued operations of $1,745, depreciation and amortization of approximately $1,247, stock-based compensation and consulting expense of approximately $880, amortization of debt discount of $13, amortization of intangible assets of $655, impairment of investments of $288, issuance of common stock in connection with consulting agreements and interest payments of $189, recognition of derivative liability of $340, offset by a decrease in warrant liability of $2,183, gain on extinguishment of debt of $803, foreign currency translation adjustment of $62, a gain from disposal of a subsidiary of $831, gain on sale of property of $1,155, change operating assets and liabilities consisting of a decrease in inventory of $21, a decrease in accounts payable and accrued expenses of $124, a decrease in prepaids of $217, an increase in other of $103, and a decrease in other assets of $1,402. Net cash flow used in operating activities for the nine months ended June 30, 2021 primarily reflected a net loss of $9,316 adjusted for the add-back of non-cash items consisting of loss from discontinued operations of $1,946, depreciation and amortization of $3,745, stock-based compensation expense of $4,284, non-cash rent and interest $331, amortization of debt discount of $606, and other adjustments of $209 offset by the change in foreign currency translation of $29, a gain in sale of equity method investments of $200, and a gain on the sale of a property of $766, a change in the fair value of derivative and warrant liabilities of $675, a change in operating assets and liabilities consisting of an decrease in accounts payable and accrued expenses of $3,248, an increase in prepaid expenses and other operating assets of $3,540.

● Net cash flow provided by investing activities for the nine months ended June 30, 2022, amounted to $3,329 and consisted of $206 used in the purchase of property and equipment, $1,651 provided from the sale of an equity method investment, and $2,173 provided from the sale of a property. Additionally, a net of $288 was provided by investments, and $1 related to repayment of a related party. Net cash flow provided by investing activities for the nine months ended June 30, 2021, amounted to $591 and consisted of $425 used in the purchase of property and equipment, $179 for project costs and an additional $560 was used in investments, offset by cash received related to the sale of a property of $1,505 and a net of $250 related to investment in equity method investees.

● Net cash provided by financing activities was $31 for the nine months ended June 30, 2022, as compared to $14,985 for the nine months ended June 30, 2021. During the nine months ended June 30, 2022, we received proceeds of $285 for the issuance of common shares, $625 related to note payables offset by repayments of $879 of notes payable. During the nine months ended June 30, 2021, we received proceeds from the issuance of common shares of $17,713 offset by $1,697 of repayment on notes payable was incurred and $1,031 for the forgiveness of debt.

CRITICAL ACCOUNTING POLICIES

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.

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.

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 approximately $795,000 was recorded for the nine months ended June 30, 2022. During the nine months ended June 30, 2021, the Company determined that no impairment was required.

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 nine months ended June 30, 2022, and 2021, the Company determined that there were $0 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.

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.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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, this 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.

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.

As of June 30, 2022, the Company has acquired interests in several entities. 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 June 30, 2022, Company estimates that its investees will need up to approximately $500,000 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.

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

(a) ***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 June 30, 2022 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 June 30, 2022. 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 June 30, 2022. 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 quarterly 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 quarterly report.

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.

(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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 August 10, 2022, 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 1A. RISK FACTORS

Smaller reporting companies are not required to provide the information required by this item. Notwithstanding, in addition to risk factors highlighted in previous reports, the Company adds the following additional risk factor:

We could be substantially affected by the Coronavirus (COVID-19) pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to a number of other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, as of the time of the filing of this quarterly report on Form 10-Q, 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth all securities issued by Stem between October 1, 2021, and June 30, 2022:

	Security	No. Shares
Compensation	Common Stock	1,000,000
Interest Expense	Common Stock	15,372
		1,015,372

All of the aforementioned shares were issued by the Company pursuant to an exemption from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1/31.2	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(a) and Rule15d- 14(a) of the Securities Exchange Act of 1934, as amended
32.1/32.2	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STEM HOLDINGS, INC.

August 15, 2022

By: */s/ Matthew J. Cohen*

Matthew J. Cohen, President, Chief Executive Officer and Chief Financial Officer

EXHIBIT 31.1

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

I, Matthew J. Cohen, certify that:

1. I have reviewed this Form 10-Q for the period ended June 30, 2022 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 material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date August 15, 2022

/s/ Matthew J. Cohen

Matthew J. Cohen
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, Matthew J. Cohen, certify that:

1. I have reviewed this Form 10-Q for the period ended June 30, 2022 of Stem Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2022

/s/ Matthew J. Cohen

Matthew J. Cohen
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 quarterly report on Form 10-Q for the period ended June 30, 2022 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 15, 2022

/s/ Matthew J. Cohen
Matthew J. Cohen
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 quarterly report on Form 10-Q for the period ended June 30, 2022 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 15, 2022

/s/ Matthew J. Cohen
Matthew J. Cohen
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.