

## Holders

As of December 5, 2022, there were 227,693,335 shares of common stock par value \$0.001 and there were approximately 436 shareholders of record.

## Transfer Agent and Registrar

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

## Dividend Policy

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

## RECENT SALES OF UNREGISTERED SECURITIES

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

	Security	No. Shares
Services	Common Stock	662,500
Consulting	Common Stock	630,000
Compensation	Common Stock	2,000,000
Issuance of common stock related to cash sales	Common Stock	3,223,611
Interest and converted notes	Common Stock	2,087,116
Director Fees	Common Stock	975,000
Cancelled	Common Stock	(12,302,900)
Total		(2,724,673)

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

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

During the year ended September 30, 2022, the Company issued 3,267,500 shares of its common stock and recorded compensation expense of \$343 thousand.

## ITEM 6. SELECTED FINANCIAL DATA

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

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

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

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

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

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

## RESULTS OF OPERATIONS

The following comparative analysis on results of operations was based primarily on the comparative consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the audited consolidated financial statements and the notes to those statements for the years ended September 30, 2022, and 2021, which are included elsewhere in this annual report on Form 10-K. The results discussed below are for the years ended September 30, 2022, and 2021 (in thousands).

(\$ in thousands)	Years Ended September 30,		Change	
	2022	2021	\$	%
Gross Revenue	\$ 19,291	\$ 24,412	\$ (5,121)	(21%)
Discounts and returns	(2,728)	(3,475)	747	(21%)
Net Revenue	16,563	20,937	(4,374)	(21%)
Cost of goods sold	(14,440)	(14,387)	53	(0%)
Consulting fees	(684)	(2,863)	2,179	(76%)
Professional fees	(2,672)	(3,263)	591	(18%)
General and administration	(11,125)	(11,802)	677	(6%)
Impairment expense	(8,670)	(2,235)	(6,435)	(288%)
Loss on discontinued operations	(914)	(54,096)	53,182	(98%)
Other income (expenses), net	4,412	3,337	1,075	(32%)
Loss from equity method investees	-	(234)	234	(100%)
<b>Net loss</b>	<b>\$ (17,530)</b>	<b>\$ (64,606)</b>	<b>\$ 47,076</b>	<b>(73%)</b>

### Revenues

In years ended September 30, 2022, and 2021, the Company engages directly in the cultivation, production and sale of cannabis and related products.

In 2022 and 2021, the Company's revenue was generated in the states of Oregon, Nevada, and California.

### Cost of Revenues

Cost of goods sold for the year ended September 30, 2022, and 2021 totaled approximately \$14.4 million and \$14.4 million, respectively. The cost of revenue consisted of cannabis product cost, which includes contracted labor, growing, and trimming expenses, and product testing. The Company expects its cost of revenues to grow in line with its future revenue growth.

### Operating Expenses

#### Consulting Fees

Consulting fees for the years ended September 30, 2022, and 2021 totaled approximately \$0.7 million and \$2.9 million, respectively. The decrease of \$2.2 million is primarily related to stock-based compensation expenses recognized during the year ended September 30, 2021, for restricted stock awards and warrants to acquire the Company's common stock issued to consultants.

#### Professional Fees

Professional fees for the years ended September 30, 2022, and 2021 totaled approximately \$2.7 million and \$3.2 million, respectively. The decrease of \$.5 million is primarily related to legal, accounting, and other professional fees incurred as a result of acquisitions during the year ended September 30, 2021. We expect our professional fees to increase as we continue to grow our business.

### *General and Administrative*

General and administrative expenses for the years ended September 30, 2022, and 2021 totaled approximately \$11.1 million and \$11.8 million, respectively. The decrease of approximately \$0.7 million is primarily related to a decrease in costs related to advertising and promotion, office expenses, and salaries.

### *Impairment Expense*

Impairment expense – investments totaled approximately \$795,000. The Company recorded impairment expense of approximately \$288,000 related to equity method investments, \$250,000 related to rescission of a planning and zoning license, \$256,725 related to other investments for the year ended September 30, 2022.

During the year ended September 30, 2022, the Company recorded impairment expense to other intangible assets in the amount of \$1,968 pertaining to Oregon cannabis licenses.

During the year ended September 30, 2022, the Company recorded impairment expense to goodwill in the amount of \$5,907 pertaining to 7LV.

### **Other Income**

Other income for the year ended September 30, 2022, and 2021 totaled approximately \$4.4 and \$3.3 million, respectively. Other income in the fiscal year ended September 30, 2022 included primarily a gain on extinguishment of debt of \$0.8 million, change in fair value of warrant liability of \$2.3 million, other income of \$2.0 million, offset by interest expense of \$0.7 million.

### **Loss from Equity Method Investees**

Related to the year ended September 30, 2021, the Company recognized a loss \$0.2 million from equity method investees.

### **LIQUIDITY AND CAPITAL RESOURCES**

On September 30, 2022, we had negative working capital of approximately \$802,000, which included cash and cash equivalents of \$1.5 million. We reported a net loss of approximately \$17.5 million and our net cash used in operating expenses totaled \$7.4 million, our cash provided by investing activities was \$3.2 million and net cash used in financing activities totaled \$0.6 million.

### ***Going Concern***

On September 30, 2022, the Company had approximate balances of cash and cash equivalents of \$1.5 million, negative working capital of \$0.8 million, total stockholders' equity of \$17.0 million and an accumulated deficit of \$133 million.

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

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

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

On February 8, 2018 the Canadian Securities Administrators (the “CSA”) published a revised staff notice setting out the CSA’s disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States (“Staff Notice 51-352”). Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views Staff Notice 51-352 favorably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulation of existing operations and strategic business plan as well as the Company’s ability to pursue further investment and opportunities in the United States.

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

On December 14, 2020, former President Trump announced that William Barr would be resigning from his post as Attorney General, effective December 23, 2020. Merrick Garland, President Biden’s nominee to succeed Mr. Barr, has served as the current Attorney General since March 2021. It is unclear what specific impact the Biden administration will have on reinstating the prior U.S. federal government enforcement policy directives promulgated under former President Obama that eased federal enforcement. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law.

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

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

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

## **Critical Accounting Policies**

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

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

### ***Impairment of Long-Lived Assets***

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

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

### ***Asset Acquisitions***

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

### ***Goodwill and Intangible Assets***

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

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

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

During the year ended September 30, 2022, the Company recorded \$250,000 related to rescission of a planning and zoning license. The Company did not recognize an impairment expense for the year ended September 30, 2021.

### ***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.

## ***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***

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

Our lease agreements generally do not provide an implicit borrowing rate; therefore, an internal incremental borrowing rate is determined based on information available at lease commencement date for purposes of determining the present value of lease payments. We used the incremental borrowing rate on September 30, 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 \$1,224 thousand and \$599 thousand for the years ended September 30, 2022, and 2021, respectively. There was sublease rental income of \$0 and \$17 thousand, respectively for the years ended September 30, 2022, and 2021. The Company has ten operating leases consisting with remaining lease terms ranging from 4 months to 177 months.

*Lease Costs*

	<b>Year Ended September 30, 2022</b>
Components of total lease costs:	
Operating lease expense	\$ 1,224
<b>Total lease costs</b>	<b>\$ 1,224</b>

*Lease positions as of September 30, 2022*

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

	<b>September 30, 2022</b>
<b>Assets</b>	
Right of use asset	\$ 6,874
<b>Total assets</b>	<b>\$ 6,874</b>
<b>Liabilities</b>	
Operating lease liabilities – short term	\$ 580
Operating lease liabilities – long term	6,476
<b>Total lease liability</b>	<b>\$ 7,056</b>

*Lease Terms and Discount Rate*

Weighted average remaining lease term (in years) – operating lease	12.23
Weighted average discount rate – operating lease	11.04%

*Cash Flows*

	<b>Year Ended September 30, 2022</b>
Cash paid for amounts included in the measurement of lease liabilities:	
ROU amortization	\$ 1,224
Cash paydowns of operating liability	\$ (1,224)
Supplemental non-cash amounts of lease liabilities arising from obtaining:	
ROU asset	\$ 6,874
Lease Liability	\$ 7,056

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

2023	\$ 1,337
2024	1,147
2025	1,053
2026	1,033
2027	825
Thereafter	8,345
<b>Total future minimum lease payments</b>	<b>13,740</b>
Less: Lease imputed interest	(6,684)
<b>Total</b>	<b>\$ 7,056</b>

### *Disaggregation of Revenue*

In the year ended September 30, 2022, and 2021, revenue reported was primarily from the sale of cannabis and related products accounted for under ASC 606.

The following table illustrates our revenue by type related to the years ended September 30, 2022, and 2021:

	<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>Revenue</b>		
Wholesale	\$ 4,306	\$ 5,270
Retail	14,867	18,432
Rental	-	17
Other	118	692
<b>Total revenue</b>	<b>19,291</b>	<b>24,411</b>
<b>Discounts and returns</b>	<b>(2,728)</b>	<b>(3,474)</b>
<b>Net Revenue</b>	<b>\$ 16,563</b>	<b>\$ 20,937</b>

### *Geographical Concentrations*

As of September 30, 2022, the Company is primarily engaged in the production and sale of cannabis, which is only legal for recreational use in 19 states and D.C., with lesser legalization, such as for medical use in an additional 21 states and D.C., as of the time of these consolidated financial statements. In addition, the United States Congress has passed legislation, specifically the Agriculture Improvement Act of 2018 (also known as the “Farm Bill”) that has removed production and consumption of hemp and associated products from Schedule 1 of the Controlled Substances Act.

### *Cost of Goods Sold*

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

### *Fair Value of Financial Instruments*

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

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

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

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

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

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

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

## ***Stock-based Compensation***

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

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

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

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

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

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

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

## ***Earnings (Loss) per Share***

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

Basic net loss per share of common stock excludes dilution and is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share of common stock reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity unless inclusion of such shares would be anti-dilutive. Since the Company has only incurred losses, basic and diluted net loss per share is the same. Securities that could potentially dilute loss per share in the future that were not included in the computation of diluted loss per share as of September 30, 2022, and 2021 are as follows:

<i>Potentially dilutive share-based instruments:</i>	September 30, 2022	September 30, 2021
Convertible notes	34,736,220	3,696,311
Options to purchase common stock	5,518,185	7,140,447
Unvested restricted stock awards	-	-
Warrants to purchase common stock	65,783,059	62,965,833
	<u>106,037,464</u>	<u>73,802,591</u>

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

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

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

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

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