

**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 **December 31, 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
(State of
Incorporation)

000-55751
(Commission
File Number)

61-1794883
(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

Non-accelerated Filer

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 235,854,408 shares outstanding of registrant's common stock, par value \$0.001 per share, as of February 16, 2023.

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

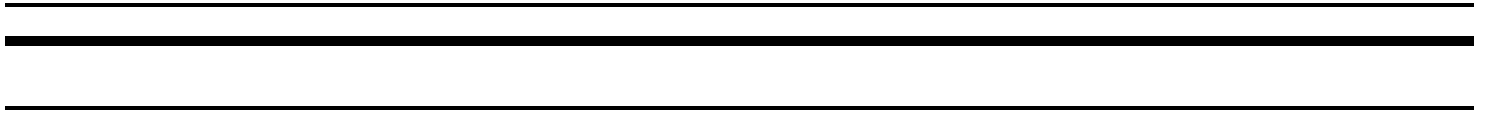


TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of December 31, 2022 (unaudited) and September 30, 2022</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations for the three months ended December 31, 2022</u>	4
<u>Unaudited Consolidated Statement of Changes in Stockholders' Equity for the three months ended December 31, 2022 and December 31, 2021</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2022 and December 31, 2021</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	35
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 4. <u>Controls and Procedures</u>	41
<u>PART II</u>	
Item 1. <u>Legal Proceedings</u>	43
Item 1A. <u>Risk Factors</u>	43
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3. <u>Defaults Upon Senior Securities</u>	44
Item 4. <u>Mine Safety Disclosures</u>	44
Item 5. <u>Other Information</u>	44
Item 6. <u>Exhibits</u>	44
<u>SIGNATURES</u>	45

PART I

ITEM 1. FINANCIAL STATEMENTS

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

	December 31, 2022 (unaudited)	September 30, 2022 *
ASSETS		
Current assets		
Cash and cash equivalents	\$ 921	\$ 1,524
Accounts receivable, net of allowance for doubtful accounts	191	313
Inventory	2,012	2,675
Prepaid expenses and other current assets	743	929
Total current assets	3,867	5,441
Property and equipment, net	8,736	9,089
Deposits and other assets	13	13
Right of use asset	6,703	6,874
Intangible assets, net	7,835	8,014
Goodwill	1,522	1,522
Due from related party	28	28
Total assets	\$ 28,704	\$ 30,981
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	2,802	2,310
Convertible notes, net	1,915	1,477
Current maturities of long-term debt	1,000	1,000
Short term notes and advances	423	451
Derivative liability	155	370
Lease liability	573	580
Warrant liability	99	55
Total current liabilities	6,967	6,243
Lease liability - long term	6,335	6,476
Long-term debt, mortgages	1,225	1,225
Total liabilities	14,527	13,944
Commitments and contingencies (Note 17)	-	-
Shareholders' equity		
Preferred stock, Series A; \$0.001 par value; 50,000,000 shares authorized, none outstanding as of December 31, 2022 and September 30, 2022	-	-
Preferred stock, Series B; \$0.001 par value; 50,000,000 shares authorized, none outstanding as of December 31, 2022 and September 30, 2022	-	-
Common stock, \$0.001 par value; 750,000,000 shares authorized; 235,854,408 and 227,013,967 shares issued, issuable and outstanding as of December 31, 2022 and September 30, 2022, respectively	235	227
Additional paid-in capital	148,685	148,450
Distribution	(24)	-
Accumulated deficit	(136,184)	(133,118)
Total Stem Holdings stockholder's equity	12,712	15,559
Noncontrolling interest	1,465	1,478
Total shareholders' equity	14,177	17,037
Total liabilities and shareholders' equity	\$ 28,704	\$ 30,981

* Derived from audited information

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

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

	For the Three Months Ended December 31,	
	2022	2021
Revenues	\$ 4,059	\$ 4,211
Cost of goods sold	4,006	3,395
Gross Profit	53	816
Operating expenses:		
Consulting fees	65	188
Professional fees	279	1,277
General and administration	2,387	3,440
Impairment expense	-	795
Total operating expenses	2,731	5,700
Loss from operations	(2,678)	(4,884)
Other income (expenses), net		
Interest expense	(287)	(178)
Change in fair value of derivative liability	215	-
Change in fair value of warrant liability	(45)	1,738
Foreign currency exchange gain (loss)	(288)	41
Other income	4	10
Gain from disposal of subsidiary	-	831
Total other income (expense)	(401)	2,442
Income (loss) from continuing operations	(3,079)	(2,442)
Loss from discontinued operations, net of tax	-	(1,745)
Net income (loss)	\$ (3,079)	\$ (4,187)
Net loss attributable to non-controlling interest	(13)	(123)
Net loss attributable to Stem Holdings	\$ (3,066)	\$ (4,064)
Loss from continuing operations, per share	(0.01)	(0.01)
Loss from discontinued operations, per share	(0.01)	(0.01)
Net income (loss) per share, basic and diluted	\$ (0.01)	\$ (0.02)
Weighted-average shares outstanding, basic and diluted	228,817,158	230,231,560

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

STEM HOLDINGS, INC.
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except for share and per share amounts)

	Common Stock		Additional Paid-in Capital	Distribution	Accumulated Deficit	Total Stem Holdings Shareholders' Equity	Non- Controlling Interest	Total Shareholders' Equity
	Shares	Amount						
Balance as of September 30, 2022	227,013,967	\$ 227	\$ 148,450	\$ -	\$ (133,118)	\$ 15,559	\$ 1,478	\$ 17,037
Issuance of common stock in connection with consulting agreement	350,000	-	9	-	-	9	-	9
Stock based compensation	1,137,500	1	22	-	-	23	-	23
Issuance of common stock in connection with convertible debt	7,352,941	7	117	-	-	124	-	124
Issuance of options in connection with employment agreement	-	-	87	-	-	87	-	87
Distribution related to YMY	-	-	-	(24)	-	(24)	-	(24)
Net loss	-	-	-	-	(3,066)	(3,066)	(13)	(3,079)
Balance as of December 31, 2022	235,854,408	235	148,685	(24)	(136,184)	12,712	1,465	14,177
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

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

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

	For the Three Months Ended December 31,	
	2022	2021
Cash flows from operating activities		
Net loss	\$ (3,079)	\$ (4,187)
Loss from discontinued operations, net of tax	-	1,745
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	119	512
Issuance of common stock in connection with consulting agreements	-	30
Impairment of investments	-	288
Depreciation and amortization	353	434
Amortization of intangible assets	179	216
Amortization of debt discount	150	7
Change in fair value of warrant liability and derivative liability	(170)	(1,738)
Foreign currency adjustment	288	(41)
Gain from disposal of subsidiary	-	(831)
Other	23	14
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	122	28
Prepaid expenses and other current assets	186	217
Inventory	663	(422)
Other assets	-	1,172
Accounts payable and accrued expenses	491	250
Net cash used in continuing operating activities	(675)	(2,306)
Net cash provided by discontinued operating activities	-	340
Net cash used in operating activities	(675)	(1,966)
Cash flows from investing activities		
Purchase of property and equipment	-	(129)
Related party payments	-	(1)
Net cash used in investing activities	-	(130)
Cash flows from financing activities		
Proceeds from the issuance of common stock	-	285
Notes payable and advanced proceeds	250	-
Distribution	(24)	-
Repayments of notes payable	(154)	(393)
Net cash provided by (used in) financing activities	72	(108)
Net decrease in cash and cash equivalents	(603)	(2,204)
Cash and cash equivalents at the beginning of the period	1,524	5,464
Cash and cash equivalents at the end of the period	\$ 921	\$ 3,260
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 90	\$ 106
Cash paid for taxes	\$ -	\$ -
Supplemental disclosure of noncash activities:		
Financed Insurance	\$ -	\$ 65
Interest paid in the form of common stock	\$ -	\$ 66
Conversion of debt to equity	\$ 124	\$ -

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

STEM HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Incorporation and Operations and Going Concern

Stem Holdings, Inc. (“Stem” or the “Company”) is a Nevada corporation incorporated on June 7, 2016, and is a leading omnichannel, vertically-integrated cannabis branded products and technology company with state-of-the-art cultivation, processing, extraction, retail, distribution, and delivery-as-a-service (DaaS) operations throughout the United States. Stem’s family of award-winning brands includes TJ’s Gardens™, TravisxJames™, and Yerba Buena™ flower and extracts; Cannavore™ edible confections; 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 December 31, 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 seeking the acquisition of entities or to 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 OTCQB 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 December 31, 2022, the Company had approximate balances of cash and cash equivalents of \$0.9 million, negative working capital of approximately \$3.1 million, and an accumulated deficit of \$136.2 million.

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

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

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The accompanying interim condensed consolidated financial statements are unaudited. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all the normal recurring adjustments necessary to present fairly the financial position and results of operations as of and for the periods presented. The interim results are not necessarily indicative of the results to be expected for the full year or any future period.

Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The Company believes that the disclosures are adequate to make the interim information presented not misleading. These consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto included in the Company's Report on Form 10-K filed on January 13, 2023, for the year ended September 30, 2022.

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 subsequently divested. In addition, the Company has consolidated YMY Ventures, WCV, LLC and NVD RE, Inc. under the variable interest requirements.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents. The Company's cash is primarily maintained in checking accounts. These balances may, at times, exceed the U.S. Federal Deposit Insurance Corporation insurance limits. As of December 31, 2022, and September 30, 2022, the Company had no cash equivalents or short-term investments. The Company has not experienced any losses on deposits of cash and cash equivalents to date.

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 December 31, 2022, and September 30, 2022 the reserve for doubtful accounts was \$79 for both periods.

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

* Unless the relevant lease is classified as a sales-type lease, under which the assets are depreciated over the estimated useful life.

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.

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 quarter ended December 31, 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. No goodwill impairment expense was incurred for the quarters ended December 31, 2022, and 2021 respectively.

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. No definite-lived intangible assets were impaired for the quarters ended December 31, 2022, and 2021 respectively.

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.

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 December 31, 2022 and September 30, 2022, 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.

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.

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 December 31, 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 \$364 and 327 thousand for the three months ended December 31, 2022 and 2021, respectively. The Company has ten operating leases consisting with remaining lease terms ranging from 1 months to 174 months.

Lease Costs

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021
Components of total lease costs:		
Operating lease expense	\$ 364	\$ 327
Total lease costs	<u>\$ 364</u>	<u>\$ 327</u>

Lease positions as of December 31, 2022

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

	December 31, 2022	
Assets		
Right of use asset	\$	6,703
Total assets	\$	<u>6,703</u>
Liabilities		
Operating lease liabilities – short term	\$	573
Operating lease liabilities – long term		<u>6,335</u>
Total lease liability	\$	<u>6,908</u>

Lease Terms and Discount Rate

Weighted average remaining lease term (in years) – operating lease	12.15
Weighted average discount rate – operating lease	11.07%

Cash Flows

	Three Months Ended December 31, 2022	
Cash paid for amounts included in the measurement of lease liabilities:		
ROU amortization	\$	364
Cash paydowns of operating liability	\$	(364)

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

2023	\$	998
2024		1,147
2025		1,053
2026		1,027
2027		831
Thereafter		<u>8,345</u>
Total future minimum lease payments		13,401
Less: Lease imputed interest		<u>(6,493)</u>
Total	\$	<u>6,908</u>

Disaggregation of Revenue

In the quarter ended December 31, 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 quarters ended December 31, 2022, and 2021 respectively:

<i>Three Months Ended December 31,</i>	2022	2021
Revenue		
Wholesale	\$ 889	\$ 554
Retail	3,921	4,366
Other	12	21
Total revenue	4,822	4,941
Discounts and returns	(763)	(730)
Net Revenue	\$ 4,059	\$ 4,211

Geographical Concentrations

As of December 31, 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 18, 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 December 31, 2022, and September 30, 2022, are as follows:

<i>Potentially dilutive share-based instruments:</i>	December 31, 2022	September 30, 2022
Convertible notes	34,736,220	34,736,220
Options to purchase common stock	9,005,685	5,518,185
Unvested restricted stock awards	-	-
Warrants to purchase common stock	55,787,372	65,783,059
	<u>99,529,277</u>	<u>106,037,464</u>

The company has determined that the amount of interest expense and gains and losses for the derivative liabilities associated with the Company's convertible notes is immaterial and inclusion would be anti-dilutive and has therefore not included an Earnings Per Share table recording the diluted earnings.

Advertising Costs

The Company follows the policy of charging the cost of advertising to expense as incurred. Advertising expense was \$39 thousand and \$122 thousand for the quarters ended December 31, 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 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. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements and related disclosures.

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

3. Property, Plant & Equipment

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

	<u>December 31,</u> <u>2022</u>	<u>September 30,</u> <u>2022</u>
Land	\$ 1,151	\$ 1,151
Automobiles	93	93
Signage	19	19
Furniture and equipment	2,590	2,590
Leasehold improvements	3,532	3,532
Buildings and property improvements	7,460	7,460
Computer software	59	59
	<u>14,904</u>	<u>14,904</u>
Accumulated depreciation	(6,168)	(5,815)
Property and equipment, net	<u>\$ 8,736</u>	<u>\$ 9,089</u>

Depreciation expense was approximately \$352 thousand and \$409 thousand for the quarters ended December 31, 2022, and 2021, respectively. Depreciation expense is included in general and administrative expense.

4. Inventory

Inventory consists of the following (in thousands):

	<u>December 31,</u> <u>2022</u>	<u>September 30,</u> <u>2022</u>
Raw materials	\$ 343	\$ 569
Work-in-progress	226	450
Finished goods	1,443	1,656
Total Inventory	<u>\$ 2,012</u>	<u>\$ 2,675</u>

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 quarter ended December 31, 2022, and the year ended September 30, 2022, due to management's assessment of the inventory on hand.

5. Prepaid expenses and other current assets

Prepaid expenses and other current assets are assets and payments previously made, that benefit future periods. The balance as of December 31, 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 \$201 thousand as of December 31, 2022.

Prepaid and other current assets comprised of the following:

	December 31, 2022	September 30, 2022
Prepaid expenses	\$ 381	\$ 538
ERTC credits	201	201
Deposits and other current assets	161	190
Total prepaid expenses and other current assets	\$ 743	\$ 929

6. Non-Controlling Interests

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

	As of September 30, 2022			
	NCI Equity Share	Net Loss Attributable to NCI	NCI in Consolidated Entities	Non- Controlling Ownership %
NVD RE Corp.	\$ 553	\$ (37)	\$ 516	36.2%
Western Coast Ventures, Inc.	842	\$ (3)	839	49.0%
YMY Ventures, Inc.	299	\$ 30	329	50.0%
Michigan RE 1, Inc.	(54)	\$ (152)	(206)	49.0%
	<u>\$ 1,640</u>	<u>\$ (162)</u>	<u>\$ 1,478</u>	

	As of December 31, 2022			
	NCI Equity Share	Net Loss Attributable to NCI	NCI in Consolidated Entities	Non- Controlling Ownership %
NVD RE Corp.	\$ 516	\$ (9)	\$ 507	36.2%
Western Coast Ventures, Inc.	839	\$ -	839	49.0%
YMY Ventures, Inc.	329	\$ (4)	325	50.0%
Michigan RE 1, Inc.	(206)	\$ -	(206)	49.0%
	<u>\$ 1,478</u>	<u>\$ (13)</u>	<u>\$ 1,465</u>	

7. 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 \$7.9 million of the Companies liabilities. Notwithstanding, the Company will continue to be responsible for \$210 thousand 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 of December 15, 2021, the date Driven was divested (in thousands):

	<u>December 15, 2021</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 47
Inventory	509
Prepaid expenses and other current assets	242
Total current assets	798
Property and equipment, net	4
Right of use asset	327
Intangible assets, net	7,049
Total assets	\$ 8,178
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Accounts payable and accrued expenses	7,551
Short term notes and advances	3
Lease liability	218
Total current liabilities	7,772
Lease liability - long term	108
Total liabilities	\$ 7,880

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

	<u>Three Months Ended December 31, 2021</u>
Revenues	\$ 3,805
Cost of goods sold	3,772
Gross Profit	33
Operating expenses:	
Consulting fees	4
Professional fees	24
General and administration	1,749
Total operating expenses	1,777
Loss from operations	(1,744)
Other expenses	
Interest expense	1
Total other expense	1
Loss from discontinued operations	\$ (1,745)

8. Intangible Assets, net

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

	Estimated Useful Life	Cannabis Licenses	Tradenname	Customer Relationship	Non- compete	Technology	Accumulated Amortization	Net Carrying Amount
Balance as September 30, 2022		\$ 8,365	\$ 280	\$ 645	\$ 220	\$ 5	\$ (1,501)	\$ 8,014
YMY Ventures	15	-	-	-	-	-	(13)	(13)
Yerba Buena	3-15 years	-	-	-	-	-	(22)	(22)
Foothill (7LV)	15	-	-	-	-	-	(131)	(131)
JV Retail 3	3-15 years	-	-	-	-	-	(4)	(4)
JV Retail 4	3-15 years	-	-	-	-	-	(4)	(4)
JV Extraction	10-15 years	-	-	-	-	-	(5)	(5)
Other	5	-	-	-	-	-	-	-
Balance as December 31, 2022		<u>\$ 8,365</u>	<u>\$ 280</u>	<u>\$ 645</u>	<u>\$ 220</u>	<u>\$ 5</u>	<u>\$ (1,680)</u>	<u>\$ 7,835</u>

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 quarters ended December 31, 2022, and 2021 was \$179 and \$218 respectively.

The following table is a runoff of expected amortization in the following 5-year period as of December 31:

2023	\$ 680
2024	680
2025	680
2026	680
2027	680
Thereafter	4,435
	<u>\$ 7,835</u>

9. Accounts payable and accrued expenses

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

	December 31, 2022	September 30, 2022
Accounts payable	2,176	\$ 1,790
Accrued credit cards	40	14
Accrued interest	130	111
Accrued payroll	161	109
Accrued sales tax liability	38	120
Other	257	166
Total Accounts Payable and Accrued Expenses	<u>\$ 2,802</u>	<u>\$ 2,310</u>

10. Notes Payable and Advances

The following table summarizes the Company's short-term notes and long-term debt, mortgages as of December 31, 2022, and September 30, 2022:

	December 31, 2022	September 30, 2022
Equipment financing	\$ 19	\$ 20
Insurance financing	74	230
Promissory note	330	201
Total notes payable and advances	\$ 423	\$ 451
Current portion of long-term debt	\$ 1,000	\$ 1,000
Long-term mortgages, net of current portion	1,225	1,225
Total long-term debt, net of current portion	\$ 2,225	\$ 2,225

Equipment financing

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 December 31, 2022, the balance outstanding is \$19,206.

Insurance financing

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 December 31, 2022, the obligation outstanding is \$0.

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 December 31, 2022, the obligation outstanding is \$0.

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 December 31, 2022, the obligation outstanding is \$2,698.

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 December 31, 2022, the obligation outstanding is \$1,922.

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 December 31, 2022, the obligation outstanding is \$1,808.

Effective July 7, 2022, the Company entered into a 12-month premium finance agreement for an insurance policy in the principal amount of \$10,150. The note bears an annual interest rate of 11%. The Company paid \$3,950 as a down payment in July 2022, the note requires the Company to make 9 monthly payments of \$837 over the remaining term of the note. As of December 31, 2022, the obligation outstanding is \$3,391.

Effective July 31, 2022, the Company entered into a 12-month premium finance agreement for an insurance policy in the principal amount of \$144,500. The note bears an annual interest rate of 9.49%. The Company paid \$35,803 as a down payment in August 2022, the note requires the Company to make 10 monthly payments of \$11,348 over the remaining term of the note. As of December 31, 2022, the obligation outstanding is \$56,740.

Effective November 26, 2022, the Company entered into a 10-month premium finance agreement for an insurance policy in the principal amount of \$11,089. The note bears an annual interest rate of 12.90 %. The Company paid \$1,961 as a down payment in November 2022, the note requires the Company to make 10 monthly payments of \$971 over the remaining term of the note. As of December 31, 2022, the obligation outstanding is \$7,769.

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, 2022, the obligation outstanding was \$200,548, which consisted of remaining principal of \$250,000 net of a debt discount of \$49,452. During the three months ended December 31, 2022, the Company converted \$124,000 of the principal and issued 7,352,941 common shares. The remaining principal balance was \$125,000, and the balance, \$80,016, was net of debt discount of \$44,984 as of December 31, 2022. In January 2023, the remaining balance has been converted through the issuance of 5,434,782 shares of common stock.

In November 2022, the Company completed a private placement of a \$250,000 unsecured promissory note and 250,000 common share purchase warrants to an arm’s length lender. 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 an interest 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 \$0.05 for a period of thirty-six (36) months after closing. The balance of the promissory note as of December 31, 2022 was \$250,000.

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 December 31, 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 December 31, 2022, the obligation outstanding is \$400,000. Subsequently, the Company has exercised its right to extend the maturity and is now due April 1, 2023.

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 December 31, 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 December 31, 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 an interest rate of 14% and monthly interest only payments of \$4,667. As of December 31, 2022, the balance due totals \$400,000.

The following is a table of the 5-year runoff of our long-term debt as of December 31:

2023	\$ 1,000
2024	775
2025	450
2026	-
2027	-
Thereafter	-
	<u>2,225</u>
Less current portion of long-term debt:	<u>(1,000)</u>
	<u>\$ 1,225</u>

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. During the fiscal year ended September 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 \$1.8 million and a gain on sale of \$1.4 million, recorded in other income.

11. 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 were 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.

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 were issued in connection this repricing at 167 common share warrants for each \$1,000 debenture unit held. A debt discount of \$1.2 million was recorded and will be amortized over the remaining life of the convertible debt, and as part of the modification of convertible debt. This transaction was accounted for as extinguishment of debt which resulted in a gain of \$803 thousand. As of December 31, 2022 and September 30, 2022, the convertible debt related to the above debentures was \$1.9 million and \$1.5 million, net of a debt discount of \$900 thousand and \$1.1 million, respectively.

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 December 31, 2022, in USD, (*in thousands*):

	Warrant Liability	Derivative Liability
Balance as of September 30, 2022	\$ -	\$ 370
Change in fair value	6	(215)
Balance as of December 31, 2022	\$ 6	\$ 155

12. 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 quarter ended December 31, 2022 (in thousands):

	Fair value measured at December 31, 2022			
	Fair value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant liability	\$ 99	\$ -	\$ -	\$ 99
Embedded derivative liability	155	-	-	155
Total fair value	\$ 254	\$ -	\$ -	\$ 254

There were no transfers between Level 1, 2 or 3 during the quarter ended December 31, 2022.

The following table presents changes in Level 3 liabilities measured at fair value for the quarter ended December 31, 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	Embedded Derivative Liability	Total
Balance – September 30, 2022	\$ 55	\$ 370	\$ 425
Warrants granted for services	-	-	-
Change in fair value	44	(215)	(171)
Balance – December 31, 2022	<u>\$ 99</u>	<u>\$ 155</u>	<u>\$ 254</u>

A summary of the weighted average (in aggregate) significant unobservable inputs (Level 3 inputs) used in measuring the Company's warrant liabilities that are categorized within Level 3 of the fair value hierarchy as of December 31, 2022, and September 2022 is as follows:

	Embedded Derivative Liability	
	As of December 31, 2022	As of September 30, 2022
Strike price	\$ 0.10	\$ 0.10
Contractual term (years)	2.6	2.8
Volatility (annual)	145%	141%
Risk-free rate	3.77%	4.00%
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 Fernandes 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.

13. 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 December 31, 2022, and September 30, 2022.

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 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 December 31, 2022, the Company issued 350,000 shares of its common stock related to various consulting agreements for a fair value of approximately \$9,000.

During the quarter ended December 31, 2022, the Company issued 1,137,500 shares of its common stock valued at \$23,000 as stock-based compensation.

During the quarter ended December 31, 2022, the Company converted \$124,000 of its convertible debt in exchange for 7,352,941 shares of the company's common stock.

14. 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 quarter ended December 31, 2022, were estimated using the following weighted-average assumptions. There were no options granted during the quarter ended December 31, 2021:

Options:

	For the Three Months Ended December 31,	
	2022	2021
Exercise price	\$ 0.05	n/a
Expected term (years)	4.94	n/a
Expected stock price volatility	124%	n/a
Risk-free rate of interest	2.42%	n/a
Expected dividend rate	0%	n/a

A summary of option activity under the Company's stock option plan for the three months ended December 31, 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, 2021	6,697,916	\$ 1.07	\$ 54	2.09
Granted	1,500,000	0.07	-	4.39
Expired	(2,242,231)	(0.67)	-	-
Outstanding as of September 30, 2022	5,955,685	\$ 1.07	\$ -	2.90
Granted	3,425,000	\$ 0.05	\$ -	4.94
Outstanding as of December 31, 2022	9,380,685	\$ 0.27	\$ -	3.13
Options vested and exercisable	9,005,685	\$ 0.35	\$ -	2.83

Estimated future stock-based compensation expense relating to unvested stock options was nominal as of December 31, 2022, and 2021. Weighted average remaining contractual life of the options is 4.94 years.

Stock-based Compensation Expense

Stock-based compensation expense for the quarters ended December 31, 2022, and 2021 was comprised of the following (in thousands):

	Three months ended December 31,	
	2022	2021
Stock grants	\$ 32	\$ 220
Stock options	87	292
Warrants	-	-
Total stock-based compensation	\$ 119	\$ 512

15. 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, 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. In the quarter ended December 31, 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 December 31, 2022, Company eliminates this rental income in consolidation.

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

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

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

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 alleged 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 sought 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 sought damages in an unspecified amount. Thereafter, on April 20, 2020, YMY Ventures, LLC filed a Notice of Non-Participation and Request for Dismissal. This matter has now been fully resolved without any financial exposure on the part of the Company.

Chris Hass, et al. vs Brian Hayek, et al.

Plaintiffs filed their initial complaint in the instant action on May 22, 2020. Plaintiffs filed the operative first amended complaint on August 18, 2020. On March 28, 2022, Plaintiffs obtained a stipulated judgment in this action in the amount of \$349,876.69 against Defendants Driven Deliveries, Brian Hayek (“Hayek”), and Christian Schenk (“Schenk”) (collectively, “Defendants”). (3/28/22 Judgment.) Plaintiffs declare that during the litigation of the instant action, Baumgartner negotiated the essential terms of a settlement with Driven Deliveries’ President, Salvador Villanueva (“Villanueva”), and Villanueva represented to Baumgartner that he was in charge of the litigation and a deal could be worked out between the two of them to resolve the case. Plaintiffs declare the basic terms of a settlement were reached between Villanueva and Baumgartner, and Plaintiffs signed a settlement agreement (“Settlement Agreement”) on November 24, 2020. Defendants, including Hayek, signed the Agreement on November 30, 2020. Plaintiffs declare they signed the Settlement Agreement because they knew Driven Deliveries was merging with Stem. Plaintiffs declare that for this reason, they made sure to state in the Settlement Agreement that in the event of a merger between Driven Deliveries and Stem, Stem would be bound by the Settlement Agreement and would be named on the Judgment. Plaintiffs also declare that when they signed the Settlement Agreement, they relied on the fact Hayek, Stem’s new Agreement to bind his new company. Plaintiffs declare Defendants made payments on the Settlement Agreement until November 2021, when payments stopped. Plaintiffs declare the settlement checks were mostly written by Villanueva. Plaintiffs declare that shortly after they signed the Settlement Agreement, Driven Deliveries officially completed its merger with Stem, and all of Plaintiffs’ shares in Driven Deliveries were converted to shares of Stem. In January 2022, Villanueva listed himself as President, Secretary, and Treasurer of Driven Deliveries. Plaintiffs filed the instant motion on September 8, 2022. On October 3, 2022, Defendant Driven Deliveries filed its notice of bankruptcy proceedings, and the Court ordered a stay as to Driven Deliveries. On October 20, 2022, nonparty Stem filed its opposition. On October 26, 2022, Plaintiffs filed their reply. At the November 2, 2022 hearing on the instant motion, the Court requested Plaintiffs and Stem submit supplemental briefs on which state law to apply regarding successor liability.

Under California law, Stem, as Driven Deliveries’ prior parent company was legally required to assume Driven Deliveries’ debt to Plaintiffs. If a domestic corporation owns all the outstanding shares, or owns less than all the outstanding shares but at least 90 percent of the outstanding shares of each class, of a corporation or corporations, domestic or foreign, the merger of the subsidiary corporation or corporations into the parent corporation or the merger into the subsidiary corporation of the parent corporation and any other subsidiary corporation or corporations, may be effected by a resolution or plan of merger adopted and approved by the board of the parent corporation and the filing of a certificate of ownership as provided in subdivision . The resolution or plan of merger shall provide for the merger and shall provide that the surviving corporation assumes all the liabilities of each disappearing corporation and shall include any other provisions required by this section. Stem’s S-4 Statement to the SEC states, “Driven is surviving the merger as a wholly owned subsidiary of Stem (the ‘Merger’). Stem, together with Driven following the Merger, is referred to herein as the combined company. Following the completion of the Merger, Stem will also assume Driven’s outstanding net indebtedness.” Plaintiffs argue that while the merger with Stem was pending, Driven and Stem’s COO, Brian Hayek agreed to be bound by California law in executing the Settlement Agreement. Accordingly, applying California law, Stem assumed Driven’s liability to Plaintiffs. Accordingly, Plaintiffs have demonstrated Stem is Driven Deliveries’ successor in interest. In the interest of justice this Court grants Plaintiffs’ motion to amend judgment to add nonparty Stem Holdings Inc. as an additional defendant.

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

16. Subsequent events

As of December 31, 2022, the Company has partially converted a \$250,000 unsecured convertible promissory note and issued 7,352,941 common shares to convert 50% of the note. The remaining principal balance as of December 31, 2022 was \$125,000. In January 2023, the balance of \$125,000 was converted through the issuance of 5,434,782 shares of common stock.

In January 2023, the Company has executed a \$250,000 unsecured convertible promissory note and 500,000 common share purchase warrants to an arm’s length lender. The Note becomes due and payable on March 31, 2023 and is subject to a voluntary conversion by the Holder at the conversion rate of \$0.01 a share. The Note bears an interest rate of 12% per annum payable at maturity. Each warrant entitles the holder thereof to purchase one common share at a price of \$0.005 for a period of thirty-six (36) months after closing.

In January 2023, pursuant to an Oregon Real Estate Agreement, the Company sold its ownership interest in Never Again 2, LLC. The purchase price for this land was \$275,000 and did not include the license

The Company has evaluated subsequent events after December 31, 2022, through the date of this filing, noting no additional items which need to be disclosed within the accompanying notes.

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 months ended December 31, 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 months ended December 31, 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

(\$ in thousands)	For the Three Months Ended December 31,		Change	
	2022	2021	\$	%
Gross Revenue	\$ 4,820	\$ 4,940	(120)	(2)%
Discounts and returns	(761)	(729)	32	4%
Cost of goods sold	4,006	3,395	611	18%
Consulting fees	65	188	(123)	(65)%
Professional fees	279	1,277	(998)	(78)%
General and administration	2,387	3,440	(1,053)	(31)%
Impairment expense	-	795	(795)	(100)%
Other income (loss), net	(401)	2,442	(2,843)	(116)%
Loss from discontinued operations	-	(1,745)	(1,745)	(100)%
Net income (loss)	\$ (3,079)	\$ (4,187)		

Comparison of the results of operations for the three months ended December 31, 2022, compared to the three months ended December 31, 2021

The Company had net revenues during the three months ended December 31, 2022, of \$ 4,059 compared with \$4,211 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 December 31, 2022, amounted to approximately \$4,006 compared to \$3,395 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 December 31, 2022, we incurred consulting costs of approximately \$65 compared to approximately \$188 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 December 31, 2022, we incurred professional fees of approximately \$279 compared to approximately \$1,277 in the comparable period of the prior year. The fees are primarily for legal, accounting, and related services that pertain to our being a public company in both the United States and Canada.

In the three months ended December 31, 2022, we incurred general and administrative costs of approximately \$2,387 compared to approximately \$3,440 in the comparable period of the prior year. The decrease relates primarily to a decrease in costs related to insurance, office expenses, and salaries.

In the three months ended December 31, 2022, we did not recognize any impairment expense. In the three months ended December 31, 2021, we incurred impairment expense of approximately \$795. This expense relates to the impairment of investments and non-refundable deposits.

The Company recognized other loss of \$401 during the three months ended December 31, 2022, compared to other income during the three months ended December 31, 2021, of \$2,442. The other loss was primarily related to an increase in interest expense and foreign currency loss

In the three months ended December 31, 2021, we had recognized a loss of discontinued operations of \$1,745 related to the divestiture of Driven.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

On December 31, 2022, we had working capital deficit of approximately \$3.1 million, which included cash and cash equivalents of \$0.9 million. We reported a net loss of approximately \$3.1 million and our net cash used in operating expenses totaled \$0.7 million, our cash used in investing activities was nil and cash flows provided by financing activities totaled \$0.1 million.

Cash Flow

Net cash flows used in continuing operating activities was approximately \$675 for the three months ended December 31, 2022, as compared net cash flow used in operating activities of approximately \$2,306 for the three months ended December 31, 2021, a change of approximately \$1,631.

- Net cash flow used in operating activities for the three months ended December 31, 2022 primarily reflected a net loss of approximately \$3,079 adjusted for the add-back of non-cash items consisting of depreciation and amortization of approximately \$353, stock-based compensation and consulting expense of approximately \$119, amortization of debt discount of \$150, amortization of intangible assets of \$179, offset by a decrease in warrant liability of \$170, change operating assets and liabilities consisting of a decrease in accounts receivable of \$122, an increase in inventory \$663, an increase in accounts payable and accrued expenses of \$491, and a decrease in prepaids of \$186 and an increase in foreign currency adjustment of \$288. Net cash flow used in operating activities for the three months ended December 31, 2021 primarily reflected a net loss of approximately \$4,187 adjusted for the add-back of non-cash items consisting of loss from discontinued operations of \$1,745, depreciation and amortization of approximately \$434, stock-based compensation and consulting expense of approximately \$542, amortization of debt discount of \$7, amortization of intangible assets of \$216, impairment of investments of \$288, offset by a decrease in warrant liability of \$1,738, foreign currency translation adjustment of \$41, a gain from disposal of a subsidiary of \$831, change operating assets and liabilities consisting of a decrease in accounts receivable of \$28, a decrease in inventory \$422, an increase in accounts payable and accrued expenses of \$250, and a decrease in prepaids of \$217 and a decrease in other assets including assets held for sale of \$1,172.
- Net cash flow used in investing activities for the three months ended December 31, 2022, amounted to nil as compared to approximately \$130 for the three months ended December 31, 2021. Net cash flow used in investing activities for the three months ended December 31, 2021, consisted of \$129 used in the purchase of property and equipment, and related party payments of \$1.
- Net cash provided by financing activities was approximately \$72 for the three months ended December 31, 2022, as compared to net cash used in financing activities of approximately \$108, for the three months ended December 31, 2021. During the three months ended December 31, 2022, we received \$250 from the issuance of notes, offset by note repayments of \$154 and distributions of \$24. During the three months ended December 31, 2021, we received proceeds of \$285 related to the issuance of common stock offset by repayments of note payables of \$393.

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.

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 quarter ended December 31, 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 December 31, 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 December 31, 2022, Company estimates that its investees will need up to approximately \$500 thousand 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 December 31, 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 December 31, 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 December 31, 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 February 21, 2023, 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.

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

The following table sets forth all securities issued by Stem between October 1, 2022, and December 31, 2022:

	Security	No. Shares
Services	Common Stock	350,000
Compensation	Common Stock	1,137,500
Issuance of common stock related to debt conversions	Common Stock	7,352,941
Total		<u>8,840,441</u>

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	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.DEF	Inline 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.

February 21, 2023

By: /s/ Matthew J. Cohen

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