

STEM HOLDINGS, INC.

FORM 10-K (Annual Report)

Filed 05/24/24 for the Period Ending 09/30/23

Address	2201 NW CORPORATE BVD SUITE 205 BOCA RATON, FL, 33431
Telephone	561-948-5410
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Sector	Financials
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

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

For the fiscal year ended September 30, 2023

Or

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

For the transition period from _____ to _____

Commission file number: 000-55751

STEM HOLDINGS, INC.

(Exact name of registrant as specified in charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

61-1794883

(I.R.S. Employer
Identification No.)

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

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

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

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

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

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

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

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

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

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-accelerated Filer ☒

Smaller Reporting Company ☒

Emerging Growth Company ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter. \$2,965,573 at \$1.40 per share.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date: 6,669,910 shares of common stock par value \$0.001 as of 04/19/2024.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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PART I

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

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

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

ITEM 1. DESCRIPTION OF BUSINESS.

Corporate Structure

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

Overview of the Business

Stem Holdings, Inc. (“Stem” or the “Company”) is a Nevada corporation incorporated on June 7, 2016, and operated as an omnichannel, vertically-integrated cannabis branded products and technology company with cultivation, processing, extraction, retail, distribution, and delivery-as-a-service (DaaS) operations in selective markets in 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). As of September 30, 2023, the Company has discontinued its cannabis operations and all cannabis related assets are held for sale as of September 30, 2023.

The Company had purchased, improved, leased, and continues to operate, however, no longer invests in properties for use in the production, distribution and sales of cannabis and cannabis-infused products. Stem has ownership interests in 17 state issued cannabis licenses including nine (9) licenses for cannabis cultivation, two (2) licenses for cannabis processing, one (1) licenses for cannabis wholesale distribution, and five (5) cannabis dispensary licenses.

The Company has eight 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 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. 7LV USA Corporation, a former wholly-owned subsidiary was sold during the quarter ended September 30, 2023.

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

Reverse Split.

On December 27, 2022, the Company's shareholders approved a proposal to implement a reverse split of the Company's Common Stock within a range of one for ten shares and one for one-hundred shares, at the discretion of the Board of Directors prior to December 27, 2023. At this time, the Board of Directors has approved a reverse split utilizing a ratio of one share for each one-hundred shares to be implemented prior to December 27, 2023. As a result of the reverse split, the Company's 557,999,222 shares will be converted into 5,579,992 post-split shares. All fractional interests resulting from the reverse split will be rounded up to the nearest whole share.

Government Regulations

Below is a discussion of the federal and state-level U.S. regulatory regimes in those jurisdictions where we are currently involved in the cannabis industry. The Company is directly engaged in the manufacture, possession, sale, and distribution of cannabis in the adult-use cannabis marketplace in the State of Oregon, California and the State of Nevada.

Federal Regulations

The United States federal government regulates drugs through the federal Controlled Substances Act (21 U.S.C. § 811) (the "CSA"), which places controlled substances, including cannabis, in one of five different schedules. Cannabis, except hemp containing less than .3% (on a dry weight basis) of the psychoactive ingredient in cannabis, is classified as a Schedule I drug. As a Schedule I drug, the federal Dr ("DEA") considers cannabis to have a high potential for abuse, no currently accepted medical use in treatment in the United States, and a lack of accepted safety for Gastaut syndrome, and Dravet syndrome, in patients two years of age and older. This is the first FDA-approved drug that contains a purified drug substance derived from the cannabis plant. CBD is a chemical component of cannabis that does not contain the intoxication studies show cannabis is not able to be abused in the same way as other Schedule I drugs, has medicinal properties, and can be safely administered. The federal position is also not necessarily consistent with democratic approval of cannabis at the state government level in the United States. Unlike in Canada, which has federal legislation uniformly governing the cultivation, distribution, sale, and possession of cannabis under the Cannabis Act, S.C. 2018, c. 16, (Canada) and the Cannabis for Medical Purposes Regulations, cannabis is largely regulated at the state and local level in the United States. State laws regulating cannabis conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain states and territories of the United States authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of cannabis.

Nonetheless, 44 U.S. states, the District of Columbia, and the territories of Puerto Rico, the U.S. Virgin Islands, Guam, and the Northern Mariana Islands have legalized some form of cannabis for medical use, while 21 states and the District of Columbia have legalized the adult-use of cannabis for recreational purposes. As more and more states legalized medical and/or adult-use cannabis, the federal government attempted to provide clarity on the incongruity between federal prohibition under the CSA and these state-legal regulatory frameworks. Notwithstanding the foregoing, cannabis remains illegal under U.S. federal law, with cannabis listed as a Schedule I drug under the CSA.

Until 2018, the federal government provided guidance to federal law enforcement agencies and banking institutions regarding cannabis through a series of memoranda was drafted by former Deputy Attorney General James Cole on August 29, 2013 (the “Cole Memorandum”). The Cole Memorandum offered guidance to federal control the cultivation, processing, distribution, sale, and possession of cannabis. As such, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. The Cole Memorandum was seen by many state-legal cannabis companies as a safe harbor for their licensed operations that were conducted in full compliance with all applicable state and local regulations. However, in January had been established by the Cole memorandum, enforcement priorities are determined by respective United States Attorneys.

Following his election, President Biden appointed Merrick Garland to serve as the U.S. Attorney General. While Attorney General Garland indicated in his confirm licensed business would be a priority target of the DOJ resources, no formal enforcement policy has been issued to date. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the U.S. Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is an industry best practice, despite the rescission of the Cole Memorandum, the Company abides by the following standard operating policies and procedures:

1. Ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township
2. Ensure that its cannabis related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted only for adult-use
3. Implement policies and procedures to ensure that cannabis products are not distributed to minors;
4. Implement policies and procedures to ensure that funds are not distributed to criminal enterprises, gangs, or cartels;
5. Implement an inventory tracking system and necessary procedures to ensure that such compliance system is effective in tracking inventory and preventing dive
6. Ensure that its state-authorized cannabis business activity is not used as a cover or pretense for trafficking of other illegal drugs, is engaged in any other illegal
7. Ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public healing.

In addition, the Company conducts background checks to ensure that the principals and management of its operating subsidiaries are of good character, have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing, or distribution of cannabis. The Company will also conduct ongoing reviews of the activities of its cannabis businesses, the premises on which they operate, and the policies and procedures that are related to possession of cannabis or cannabis products outside of the licensed premises, including the cases where such possession is permitted by regulation.

One legislative safeguard for the medical cannabis industry remains in place. Congress has passed a so called “rider” provision in the fiscal year 2015, 2016, 2017, 2018, 2019, 2020 and 2021 Consolidated Appropriations Acts to prevent the federal government from using congressionally appropriated funds the Farr Amendment after its original lead sponsors (it is also sometimes referred to as the “Rohrabacher-Blumenauer” or “Joyce- Leahy” Amendment). In 2021, President Biden became the first president to propose a budget with the Rohrabacher-Farr Amendment included. On February 18, 2022, the amendment was renewed through the signing of a stopgap spending bill, effective through March 11, 2022.

Nevertheless, for the time being, cannabis remains a Schedule I controlled substance at the federal level. The federal government of the U.S. has always reserve use cannabis, even if state law sanctions such sale and disbursement. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in state the Company’s business, results of operations, financial condition, and prospects could be materially adversely affected.

There is a growing consensus among cannabis businesses and numerous members of Congress that prosecutorial Discretion is not law and temporary legislative riders, such as the Rohrabacher-Farr Amendment, are an inappropriate way to protect lawful medical cannabis businesses. Numerous bills have been introduced in Congress in recent years to decriminalize aspects of state-legal cannabis trades. The Company has observed that each year more congressmen and congresswomen sign on and co-sponsor cannabis legalization bills. In light of all this, it is anticipated that the federal government will eventually repeal the federal prohibition on cannabis.

The most comprehensive proposal for reform of federal legislation on cannabis was introduced on July 14, 2021, by Senate Majority Leader Chuck Schumer (D-NY) along with Cory Booker (D-NJ), and Ron Wyden(D-OR) when they released draft legislation titled the Cannabis Administration and Opportunity Act (the “CAOA”). The CAOA removes cannabis from Schedule I of the Co violent marijuana crimes. The CAOA would impose a federal tax on cannabis of 10% in its first year of enactment, eventually increasing to 25% in 5% increments.

The CAOA enshrines the current state cannabis licensing regimes but introduces additional federal permitting of cannabis wholesalers. Regulatory responsibility for cannabis control would be transferred from the DEA to the Alcohol and Tobacco Tax and Trade Bureau (“TTB”) or the Bureau of Alcohol, Tobacco, Firearms, and Explosives (“ATF”). The publication of the CAOA by Democratic congressional leaders represents a significant mi awaited benefits to the industry of the removal of the Section 280E tax burden, clarity as to the status of state-licensed cannabis businesses, broad access to the banking and card payment system, and increased availability, and reduced cost, of capital.

At the time of the CAOA announcement, Senator Schumer indicated the bill currently did not have sufficient support in the Congress to pass. Although he originally targeted Spring 2022 for passage of legislation based on shifted to introducing h of a revised draft of the CAOA in the Senate in April 2022. As introduced, the CAOA lacked clarity regarding the transition of cannabis control from the DEA to TTB and the FDA, which presents the risk that existing operators may face a period of regulatory uncertain if legislation similar to the CAOA is enacted. Such uncertainty may impede growth of, and investment in, incumbent cannabis businesses, while ultimately, the CAOA did not pass and there can be no assurance that similar comprehensive legislation that would deschedule cannabis and decriminalize will be passed in the near future or at all. If such legislation is passed, there is no guarantee that it will include provisions that preserve the current state-based cannabis programs under which the Company’s subsidiaries operate or that such legislation will be otherwise favorable to the Company and its business.

Regulation of the Cannabis Market at State and Local Levels

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

State	Entities	Adult-Use / Medical	Direct / Indirect / Ancillary	Dispensary Licenses	Cultivation / Processing / Distribution Licenses
California	7LV USA	Medical	Direct ⁽¹⁾	1	N/A
Nevada	YMY	Both	Indirect ⁽²⁾	N/A	4
Oregon	Various	Both	Direct ⁽³⁾	4	8

Notes:

- (1) The Company's wholly owned subsidiary, 7LV USA, operates a cannabis dispensary in Sacramento, California. As of July 10, 2023, the Company sold this license along with its stock of the subsidiary holding the license to a third party.
- (2) The Company holds a 50% interest in YMY, which operates a cannabis facility in North Las Vegas, Nevada.
- (3) The Company holds all licenses in Oregon directly, through wholly owned subsidiaries.

California

History

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

Regulatory Summary

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

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

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

California License Types

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

Company Licenses

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

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

Holding Entity	Permit/License	City, State	Expiration Date	Description	Current Status
7LV USA	C10-0000679-LIC	Sacramento, California	January 14, 2024	Medicinal Retailer License	Sold July 10, 2023

California Agencies Regulating the Commercial Cannabis Industry

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

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

California Transportation

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

California Inventory/Storage

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

California Record-keeping/Reporting

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

Retail Compliance in California

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

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

California Security

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

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

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

California Inspections

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

Cannabis taxes in California

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

U.S. Attorney Statements in California

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

Nevada

History

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

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

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

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

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

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

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

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

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

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

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

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

Regulatory Overview

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

Licensing Requirements

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

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

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

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

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

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

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

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

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

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

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

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

Company Licenses

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

Holding Entity	Permit/License	City, State	Expiration Date	Description	Current Status
YMY ⁽¹⁾	18897864143987354009	Las Vegas, Nevada	June 30, 2024	Medical Cultivation License	In use, and listed for sale
YMY ⁽¹⁾	49988620104464639364	Las Vegas, Nevada	June 30, 2024	Recreational Cultivation License	In use, and listed for sale
YMY ⁽¹⁾	78715576282428558550	Las Vegas, Nevada	June 30, 2024	Medical Product Manufacturing License	In use, and listed for sale
YMY ⁽¹⁾	32704290606712932888	Las Vegas, Nevada	June 30, 2024	Recreational Product Manufacturing License	In use, and listed for sale

Note:

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

Nevada Transportation

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

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

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

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

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

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

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

Nevada Inventory

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

Nevada Security

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

Department Inspections

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

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

Delivery and Online Distribution

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

U.S. Attorney Statements in Nevada

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

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

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

Oregon

History

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

Regulatory Summary

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

Company Licenses

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

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

Holding Entity	Permit/License	City, State	License Expiration Date	Description	Current Status	DBA
JV Foods LLC	030-1014658322F	Eugene, Oregon	September 3, 2024	Recreational Processor	In use, and listed for sale	399 Wallis St.
JV Extraction LLC	030-1014657D1EC	Eugene, Oregon	September 3, 2024	Recreational Processor	Sold December 20, 2023 in conjunction with Opco Production 1 Kerry Bennet	399 Wallis St.
JV Extraction LLC	030-101742659A2	Eugene, Oregon	September 16, 2024	Recreational Processor	Sold March 15, 2023 BMNW	Chambers St Artifact
JV Applegate LLC	020-10146602629	Jacksonville, Oregon	N/A	Recreational Producer	Sold November 28, 2023 in conjunction with JVP3 Facility	Green t Farms
JV Wholesale LLC	060-10146555C41	Eugene, Oregon	September 3, 2024	Recreational Wholesaler	In use, and listed for sale	Reefer Distribution
JV Wholesale LLC	060-1017430C9B0	Eugene, Oregon	September 16, 2024	Recreational Wholesaler	Sold March 15, 2023 BMNW	Chambers St Artifact
JV Wholesale LLC	060-10118468E74	Eugene, Oregon	June 2, 2024	Recreational Wholesaler	Sold October 20, 2023 to a third party Monya Ventures Tim Lorito	Originally located in Portland
JV Production 3 LLC	020-1014656E7A7	Eugene, Oregon	September 3, 2024	Recreational Producer	Sold February 15, 2023 to a third party WYX68 Tomas Palm	451 Wallis
OpCo Production 2 LLC	020-10146517BD5	Mulino, Oregon	September 3, 2024	Recreational Producer	In Use and listed for sale	Mulino
OpCo Production 1 LLC	020-10146613F29	Springfield, Oregon	September 5, 2024	Recreational Producer	Sold December 20, 2023 Kerry Benett	42 nd Street Springfield
JV Retail 3 LLC	050-1017428AB09	Eugene, Oregon	September 16, 2024	Recreational Retailer	Sold October 16, 2023	7 th street
JV Retail 4 LLC	050-1017432812F	Salem, Oregon	September 16, 2024	Recreational Retailer	In use, and listed for sale	Broadway
OPCO Retail 1 LLC	050-10146522DCF	Portland, Oregon	September 3, 2024	Recreational Retailer	In use, and listed for sale	Powell
JV Retail 2 LLC	050-1014653D811	Eugene, Oregon	September 3, 2024	Recreational Retailer	In use, and listed for sale	Willamette
Kind Care, LLC	050-10146546503	Eugene, Oregon	September 3, 2024	Recreational Retailer	In use, and listed for sale	TJ's Provisions
Stem Holdings Oregon, Inc.	020-1013432D099	Hillsboro, Oregon	N/A	Recreational Producer	Discontinued on April 23, 2023	Yerba

Oregon Transportation

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

Oregon Inventory/Storage

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

Oregon Record-keeping/Reporting

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

Oregon Security

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

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

Oregon Inspections

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

U.S. Attorney Statements in Oregon

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

Compliance with Applicable State Law in the United States

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

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

The Company’s compliance department oversees training for all employees, including on the following topics: (i) compliance with state and local laws; (ii) safe cannabis use; (iii) dispensing procedures; (iv) security and safety policies and procedures; (v) inventory control; (vi) quality control; and (vii) transportation procedures. The Company’s compliance department includes the Chief Executive Officer and Chief Operating Officer of the Company, as well as the Company’s managers in charge of cultivation, branding and sales.

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

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

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

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

Ability to Access Public and Private Capital

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

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

History of the Business

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

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

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

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

Investments in Subsidiaries

In April 2018, the Company received a 37.5% interest in NVD RE Corp. ("NVD") upon its issuance to NVD of a commitment to contribute \$1.275 million to NVD, which included the purchase price of \$600,000 and an additional commitment to pay tenant improvement costs of \$675,000. As of September 30, 2019, the Company paid \$600,000 in cash for the real estate and not only fully funded its commitment but invested an additional \$377,000 in capital over and above its original obligation. NVD used the funds provided to date by the Company to construct a cannabis indoor grow building and processing plant located near Las Vegas, Nevada and to continue the buildout of the property. The Company has no further commitment to fund the entity beyond its initial equity purchase commitment. NVD leases its facilities to YMY Ventures, LLC. In the fiscal year ended September 30, 2019, NVD obtained \$300,000 in proceeds from a mortgage on its property. The funds from this mortgage were advanced to the Company. As of September 30, 2022, this obligation was paid in its entirety, and \$400,000 in additional proceeds were received on new mortgage. In May 2020, the Company acquired an additional 26.25% interest in NVD by issuing 386,035 common shares at par value of \$0.001 which resulted in a total investment of 63.75%.

In September 2018, the Company entered into an agreement to acquire 50% of the membership interest of YMY Ventures LLC (“YMY”). YMY is a startup operation located near Las Vegas, Nevada and owns licenses for the production and sale of cannabis. The purchase price for the 50% interest was \$750,000, with the first \$375,000 paid into escrow upon signing, with the final \$375,000 due upon closing, which under the agreement occurs when the license is transferred by the Nevada Department of Taxation and receipt of approval in transfer of ownership by the Division of Public and Behavioral Health of the City of North Las Vegas. As of June 30, 2019, the Company had funded the \$375,000 into escrow and had provided the joint venture with additional funds primarily in the form of payments for work performed to acquire four licenses from the Nevada Department of Taxation in the amount of approximately \$690,238. As of February 28, 2019, the Nevada Department of Taxation approved the change of ownership for four medical and recreational cultivation and production licenses held by YMY Ventures now owned by Stem Holdings, Inc. Pursuant to the agreement, the escrowed amount of \$375,000 was released and an additional payment of \$67,500 was issued in August 2019. The balance of \$307,500 was being held and negotiated with the partners due to the additional funds over and above the original obligation to provide tenant improvements of \$650,000. As of September 30, 2022, the balance has been paid in full.

On October 8, 2018, the Company and Yerba Buena Oregon, LLC (“Yerba”) entered into an Asset Purchase Agreement which provided for the Company to purchase certain assets and assume certain liabilities of Yerba. Yerba is a wholesale producer of recreational marijuana flower, by-product and pre-roll product in the state of Oregon. On June 24, 2019, Stem received regulatory approval from the Oregon Liquor Control Commission and closed on the acquisition of Yerba. Yerba operates an award-winning state-of-the-art cultivation facility equipped with an in-house genetics program and a cannabis library consisting of a few hundred strains. On April 14, 2023, the Company elected to cease operations by closing the facility down and settling with the landlord by transferring certain fixed assets in consideration of early termination of the leased property.

Tilstar Medical, LLC

In April 2019, the Company entered into an agreement to acquire 48% of the membership interest of Tilstar Medical, LLC (“TIL”). TIL is a startup operation located in Laurel, Maryland and owns a project management company which assists in procuring licenses for the production and sale of cannabis. The purchase price for the 48% interest was \$550,000 to capitalize TIL which under the operating agreement occurs upon the execution of the agreement. As of September 30, 2019, the Company had funded the \$550,000 and accounted for its investment using the equity method of accounting. The Company was not made aware at time of its investment in the type and magnitude of expenses that would be funded with its investment capital and is currently in the process of renegotiating the terms of the operating agreement. During the year ended September 30, 2019, Tilstar Medical along with its partner, Stem Holdings, Inc. received a letter from the Maryland Medical Cannabis commission with notification that we received stage one pre-approval for a processor license. The Companies application ranked amongst the top nine highest scoring applications for a medical cannabis processor license. Final awards will be issued during calendar year 2021. During the years ended September 30, 2022 and 2021, the Company recognized minimal losses on investments related to TIL. During the year ended September 30, 2022, the Company recorded impairment expense of approximately \$288,000 related to its investment in TIL.

Community Growth Partners, INC

On January 6, 2020, the Company issued a convertible promissory note to Community Growth Partners Holdings, Inc., (“CGS”) which will act as a line of credit. Subject to the terms and conditions of the note, CGS promises to pay the Company all of the outstanding principal together with interest on the unpaid principal balance upon the date that is twelve months after the effective date and shall be payable as follows: (a) The Company agrees to make several loans to CGS from time to time upon request of CGS in amounts not to exceed the principal sum of \$2,000,000, (b) Payment of principal and interest shall be immediately available funds, (c) This note may be prepaid in whole or in part at any time without premium or penalty. Any partial prepayment shall be applied against the principal amount outstanding, (d) The unpaid principal amount outstanding under this note shall bear interest commencing upon the first advance at the rate of 10% per annum through the maturity date, calculated on the basis of a 365-day, until the entire indebtedness is fully paid, Upon the closing of a \$2,000,000 financing by the Company, all of the principal and interest shall automatically convert into equity shares of CGS at the price obtained by the qualified financing. As of September 30, 2020, a portion of the note was converted into 7% equity. In March 2021, the balance of a note receivable was converted into an additional 6% equity leaving an equity investment of 13%. During the year ended September 30, 2022, pursuant to a secondary stock purchase agreement, the Company sold its equity investment in CGS in consideration for \$1.65 million in cash.

Seven Leaf Ventures Corp. (“7LV”)

On March 6, 2020, the Company closed the acquisition of Seven Leaf Ventures Corp. (“7LV”), a private Alberta, Canada corporation, and its subsidiaries, pursuant to the terms of a share purchase agreement dated March 6, 2020. 7LV owns Foothills Health and Wellness, a medical dispensary, in the greater Sacramento, California area (the “Sacramento Dispensary”). Company management believes that the Sacramento Dispensary is expected to drive synergies with Stem’s premium branded dispensaries in Eugene and Portland, OR. On July 10, 2023, 7LV Acquisition Corporation, a Canadian corporation and subsidiary of (“7LV”), sold 49 percent of its shares to a third party with the remaining 51 percent of the shares to be sold concurrent with regulatory approval to be tendered later in the year. The total purchase price of the shares is \$2,500,00 (Two Million Five Hundred Thousand USD) with the following terms, \$1,000,000 down payment and 15 equal monthly installments.

Company purchase of Opco businesses

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

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

Principal Products and Markets

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

Production and Sales

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

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

Company Funding

Private Placement Transactions

The Company has sold shares of its common stock in private placement transactions under the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "**Securities Act**"), and Regulation D promulgated thereunder and certain exemptions of the laws of the jurisdictions where any offering is made. In the fiscal years ended September 30, 2022, and 2021, the Company raised gross proceeds of approximately \$285,000 and \$2,695,000, respectively.

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

Promissory Note

In January 2020, the Company issued two promissory notes with a principal balance of \$500,000 to accredited investors (the "Note Holders"). The note matures in October 2020 and has an annual rate of interest of 12%. In connection with the issuance of the promissory note, the Company issued the Note Holders 100,000 common stock purchase warrants with a five-year term from the issuance date, \$0.85 per. As of July 2020, in consideration of the warrants being amended to \$0.45 per share with an extended the term from five to a ten-year term, the maturity date has been extended to December 13, 2020. As of September 30, 2020, the obligation outstanding is \$500,000 and \$440,403, net of debt discount of \$59,597. As of September 30, 2022, the obligation outstanding is \$250,000 and the balance is \$200,548, net of debt discount of \$49,452. During the three months ended December 31, 2022, the Company converted \$125,000 of the principal and issued 7,352,941 common shares. In January 2023, the remaining balance was 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 September 30, 2023, was \$150,000.

Convertible Promissory Notes and Mortgages

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.

Long-term debt, mortgages

In January 2020, the Company refinanced a mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 15% per annum. Monthly interest only payments began February 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance was due on January 31, 2022, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the former CEO and Director of the Company. As of June 30, 2023, the Company executed a sale lease back agreement with the Company's Powell property and entered into a 10-year lease with an unrelated third party located in Wichita, KS. The lease requires the Company to pay a starting base rental fee of \$7,714 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 \$354,000 and a loss on sale of \$249,000, recorded in other expense.

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 September 30, 2023, the obligation outstanding is \$400,000 included in liabilities held sale. Subsequently, the Company has exercised its right to extend the maturity by incurring an additional fee.

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 March 31, 2023, 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. As of June 30, 2023, the Company executed a sale lease back agreement with the Company's Willamette property and entered into a 10-year lease with an unrelated third party located in Santa Cruz, CA. The lease requires the Company to pay a starting base rental fee of \$11,667 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 \$556,000 and a loss on sale of \$482,000, recorded in other expense.

In July 2020, the Company executed a mortgage payable on property located in Oregon to acquire additional funds. The mortgage bears interest at 14% per annum. Monthly interest only payments began August 1, 2020, payments will continue each month thereafter until paid. The entire unpaid balance is due on July 31, 2023, the maturity date of the mortgage, and is secured by the underlying property. The mortgage terms do not allow participation by the lender in either the appreciation in the fair value of the mortgaged real estate project or the results of operations of the mortgaged real estate project. The note has been cross guaranteed by the former CEO and Director of the Company. As of June 30, 2023, the pursuant to a sales agreement, the property was sold for \$275,000. This transaction resulted in net proceeds to the Company in the amount of \$56,000 and a loss on sale of \$894,000 recorded loss on sale.

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 September 30, 2023, the Company refinanced this obligation in the amount of \$675,000 which is included in liabilities held for sale and paid off the principal balance of \$400,000. The refinanced mortgage term is 24 months and includes an interest rate of 15% and monthly interest only payments of \$8,437.

The following is a table of the 5-year runoff of our long-term debt as of September 30 included in liabilities held for sale:

2024	\$	400
2025		-
2026		675
2027		-
2028		-
Thereafter		-
		<u>1,075</u>
Less current portion of long-term debt:		<u>(400)</u>
	\$	<u><u>675</u></u>

In January 2023, the Company 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. As of June 30, 2023, the note balance was \$150,000, and has subsequently been satisfied.

During March 2023, the Company executed a \$100,000 unsecured convertible promissory note. The Note bears an interest rate of 7.5% per annum payable quarterly either in cash or in kind. The Note becomes due and payable on March 7, 2024, and is subject to a voluntary conversion by the Holder at the conversion rate of \$0.01 a share. Additionally, upon this conversion, the noteholder is entitled to 100 percent cashless warrant coverage entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after conversion. If the noteholder elects to redeem the note, the holder would be entitled to accrued interest along with three times cashless warrant coverage based on the initial investment entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after redemption.

During March 2023, the Company executed a \$50,000 unsecured convertible promissory note. The Note bears an interest rate of 7.5% per annum payable quarterly either in cash or in kind. The Note becomes due and payable on March 7, 2024, and is subject to a voluntary conversion by the Holder at the conversion rate of \$0.01 a share. Additionally, upon this conversion, the noteholder is entitled to 100 percent cashless warrant coverage entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after conversion. If the noteholder elects to redeem the note, the holder would be entitled to accrued interest along with three times cashless warrant coverage based on the initial investment entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after redemption.

During April 2023, the Company executed a \$50,000 unsecured convertible promissory note. The Note bears an interest rate of 7.5% per annum payable quarterly either in cash or in kind. The Note becomes due and payable on March 7, 2024, and is subject to a voluntary conversion by the Holder at the conversion rate of \$0.01 a share. Additionally, upon this conversion, the noteholder is entitled to 100 percent cashless warrant coverage entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after conversion. If the noteholder elects to redeem the note, the holder would be entitled to accrued interest along with three times cashless warrant coverage based on the initial investment entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after redemption.

During April 2023, the Company executed a series of secured promissory notes totaling \$545,000. The Notes bears an interest rate of 7.5% per annum payable quarterly either in cash or in kind. The Note becomes due and payable on March 7, 2024, and is subject to a voluntary conversion by the Holder at the conversion rate of \$0.01 a share. Additionally, upon this conversion, the noteholder is entitled to 100 percent cashless warrant coverage entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after conversion. If the noteholder elects to redeem the note, the holder would be entitled to accrued interest along with three times cashless warrant coverage based on the initial investment entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after redemption. These debentures are collateralized pursuant to a security and escrow agreement whereas the funds are set aside to fund the debentures upon the holder's decision to either convert or redeem the note.

The total remaining balance of the convertible notes listed above was \$0.3 million, which is net of a discount of \$0.6 million as of June 30, 2023, and is reflected on the balance sheet within convertible notes, net.

CD Special Warrant Offering

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

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

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

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

Each CD Special Warrant will be exchanged (with no further action on the part of the holder thereof and for no further consideration) for one convertible debenture unit of the Company (a “Convertible Debenture Unit”), on the earlier of: (i) the third business day after the date on which both (A) a receipt (the “Receipt”) for a (final) document (the “Qualification Document”) qualifying the distribution of the Convertible Debentures (as defined below) and Warrants (as defined below) issuable upon exercise of the CD Special Warrants has been issued by the applicable securities regulatory authorities in the Canadian jurisdictions in which purchasers of the CD Special Warrants are resident (the “Canadian Jurisdictions”), and (B) a registration statement (the “Registration Statement”) registering the resale of the common shares underlying the Convertible Debentures and Warrants has been declared effective by the U.S. Securities and Exchange Commission (the “Registration”); and (ii) the date that is six months following the closing of the Offering. The Company has also provided certain registration rights to purchasers of the CD Special Warrants. The CD Special Warrants were exchanged for Convertible Debenture Units after six months as U.S. and Canadian registrations were not effective at that time.

Each Convertible Debenture Unit is comprised of CDN \$1,000 principal amount 8.0% senior unsecured convertible debenture (each, a “Convertible Debenture”) of the Company and 167 common share purchase warrants of the Company (each, a “Warrant”). Each Warrant entitles the holder to purchase one common share of the Company (each, a “Warrant Share”) at an exercise price of CDN \$3.90 per Warrant Share for a period of 24 months following the closing of the Offering.

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

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

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

The Convertible Debenture features contain the following embedded derivatives:

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

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

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

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

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

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

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

In June 2022, the Company received approval of the holders Warrant holders of the warrants and the holders debenture holders of the Convertible Debentures to reprice the convertible securities issued in connection with the Company's special warrant financing, which initially closed on December 27, 2018, and June 14, 2019. The share purchase warrants of the Company issued in connection with the financing will be repriced to C\$0.20 per Common Share and the convertible debentures of the Company issued in connection with the financing will be repriced to C\$0.10 per common share. Additionally, the Debenture holders have approved the following amendments to the terms of the convertible debentures: (i) an extension to the maturity date of the convertible debentures to three years ; and (ii) an amendment to permit the Company to force the conversion of the principal amount of the then outstanding convertible debentures and any accrued and unpaid interest thereof at the new conversion price on not less than 30 days' prior written notice if the closing trading price of the shares of common stock of the Company's common shares exceeds C\$0.80 for a period of 10 consecutive trading days on the CSE, (iii) the payment of 5% of the principle amount. Share purchase warrants of the Company 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 September 30, 2022, the convertible debt related to the above debentures was \$1.5 million and \$2.9 million, net of a debt discount of \$1.1 million and \$0, respectively.

On November 30, 2023, the Company received the approval of the holders (the **"Debenture Holders"**) of the 8.00% unsecured convertible debentures of the Company (the **"Convertible Debentures"**) to amend the terms of the Convertible Debentures. As of the date hereof, a total principal amount of approx. US\$2.56 million of Convertible Debentures were outstanding.

The Debenture Holders have approved amendments to the terms of the Convertible Debentures to: (i) reprice the Convertible Debentures from the current conversion price of C\$0.10 per share of Common Stock of the Company (the **"Common Shares"**) to US\$0.01 per Common Share (the **"New Conversion Price"**); and (ii) 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 at any time, in the sole discretion of the Company (collectively, the **"Debenture Amendments"**).

The Debenture Amendments will be implemented pursuant to the terms of a supplemental indenture to be entered into between the Company and Olympia Trust Company (the **"Supplemental Indenture"**). A copy of the Supplemental Indenture will be available on the Company's profile on SEDAR+.

The Company converted the entire principal amount of the Convertible Debentures and any accrued and unpaid interest thereon at the New Conversion Price on December 1, 2023. Approximately 262 million Common Shares will be issued, representing approximately 48.5% the Common Shares outstanding following such conversion.

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 September 30, 2023, in USD, *(in thousands)*:

	Warrant Liability	Derivative Liability
Balance as of September 30, 2022	\$ 55	\$ 370
Change in fair value	79	78
Balance as of September 30, 2023	\$ 134	\$ 448

Merger with Driven Deliveries, Inc.

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

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

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

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

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

Employees

As of September 30, 2023, the Company had approximately seventy (75) employees, most of whom devote their full time to the Company’s operations. No employee is covered by a collective bargaining agreement.

Website.

The Company operates a website at www.stemholdings.com

ITEM 1A. RISK FACTORS

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

In July 2016, the Company entered into a 10-year lease for a commercial building from an unrelated third party in Springfield, Oregon. 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"). The Company eliminates this rental income in consolidation.

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

In February 2019, the Company entered into a 4-year lease for the occupancy of a store front retail location in California. The lease requires the Company to pay a starting base rental fee of \$3,820 per month with yearly increases thereafter. Through the execution of a purchase agreement to a third party, this lease was assumed and assigned to the purchaser.

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. Both the additional 2,000 square feet of space and original lease has expired, and the Company is on a month to month for 3,000 square foot at the same location.

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

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

In September 2021, the Company executed an assignment and assumption of lease for the occupancy of a wholesale and processing facility location in Eugene, Oregon. The lease requires the Company to pay a starting base rental fee of \$5,516 per month with yearly increases thereafter.

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

In May 2022, the Company executed a sale lease back agreement with the Company's Mulino property, and entered into a 15-year lease with an unrelated third party located in Englewood, CO. The lease requires the Company to pay a starting base rental fee of \$29,167 plus additional estimated triple net charges per month including real estate taxes in which the base rental fee escalates each year by approximately 2%. All taxes (including reconciling real estate taxes), maintenance, and utilities are included and paid monthly. This transaction resulted in net proceeds to the Company in the amount of \$2.2 million.

In May 2023, the Company executed a sale lease back agreement with the Company's Willamette property, and entered into a 10-year lease with an unrelated third party located in Santa Cruz, California. The lease requires the Company to pay a starting base rental fee of \$11,667 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 \$556 thousand dollars.

In May 2023, the Company executed a sale lease back agreement with the Company's Powell property, and entered into a 10-year lease with an unrelated third party located in Wichita, Kansas. The lease requires the Company to pay a starting base rental fee of \$7,714 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 \$354 thousand dollars.

ITEM 3. 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 September 30, 2023, other than discussed below 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.

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

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

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 this 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, this 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 is 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. On December 12, 2022, the Superior Court granted the plaintiffs’ motion to amend the stipulated judgment to add the Company, thereby making the Company liable, along with the defendants and Driven’s former owner, Sal Villanueva, for the judgment of \$349,876.69, plus interest. The Company has appealed from the Superior Court order, and the matter is now pending in the California Court of Appeal for the Second District. The Company believes the Superior Court erred in amending the judgment to include the Company, given that the Company was only a shareholder in Driven, was uninvolved in the original settlement or the stipulated judgment, and Driven never merged into the Company. The Company has vigorously defended against the plaintiffs’ claims in Superior Court and the Court of Appeal. It is not possible for us to provide an evaluation of the likelihood of an unfavorable outcome or an estimate of the amount of potential loss.

Sheila Contreras, et al. v. Budee, Inc.,

California Superior Court for the County of Alameda, Case No. 22CV017480. Plaintiffs filed a complaint on September 8, 2022 against Budee, Inc., Driven Deliveries, Inc. (“Driven”), and the Company for alleged violations of California wage-and-hour laws by Driven between May 2020 and August 2021. The Company, on behalf of itself alone, filed an answer denying the allegations on November 22, 2022. A non-jury trial is scheduled for October 25, 2024. Plaintiffs have taken no discovery and it is unclear whether they intend to fully pursue the action to trial. Given that the Company did not employ the plaintiffs, the Company lacks information regarding the amount of potential loss. The Company believes the action has no merit and intends to vigorously defend against the claims.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

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

The Company’s common stock commenced trading on the OTCQB on May 23, 2018 under the symbol “STMH” and the Canadian Securities Exchange (CSE) on July 13, 2018 under the symbol “STEM”. On October 3, 2019, the Company commenced trading on the OTCQX. On September 1, 2022, the Company’s listing was assigned to the OTCQB.

The following table shows the high and low prices of our common shares on the OTCQB/OTCQX for each quarter for quarter from October 1, 2021 through September 30, 2023. The following quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions:

Period	High	Low
October 1, 2021-December 31, 2021	\$ 27.00	\$ 9.00
January 1, 2022-March 31, 2022	\$ 14.00	\$ 6.00
April 1, 2022-June 30, 2022	\$ 7.00	\$ 3.00
July 1, 2022-September 30, 2022	\$ 4.00	\$ 2.00
October 1, 2022-December 31, 2022	\$ 3.80	\$ 1.30
January 1, 2023-March 31, 2023	\$ 4.10	\$ 1.00
April 1, 2023-June 30, 2023	\$ 2.20	\$ 0.80
July 1, 2023-September 30, 2023	\$ 3.00	\$ 0.50

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

Holder

As of 04/19/2024, there were 6,669,910 shares of common stock par value \$0.001 and there were approximately 427 shareholders of record.

Transfer Agent and Registrar

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

Dividend Policy

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

RECENT SALES OF UNREGISTERED SECURITIES

The following table sets forth all securities issued by Stem between October 1, 2022, and September 30, 2023:

Services	Common Stock	3,500
Compensation	Common Stock	241,375
Issuance of common stock related to debt conversions	Common Stock	127,877
Issuance of common stock related to rent and interest payments	Common Stock	167,202
Total		539,954

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

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

During the year ended September 30, 2023, the Company issued 241,375 shares of its common stock and recorded compensation expense of \$229 thousand.

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

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

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

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

RESULTS OF OPERATIONS

The following comparative analysis on results of operations was based primarily on the comparative consolidated financial statements, footnotes and related information for the periods identified below and should be read in conjunction with the audited consolidated financial statements and the notes to those statements for the years ended September 30, 2023, and 2022, which are included elsewhere in this annual report on Form 10-K. The results discussed below are for the years ended September 30, 2023, and 2022 (in thousands).

(\$ in thousands)	Years Ended September 30,		Change	
	2023	2022	\$	%
Consulting fees	(299)	(682)	(383)	(56)%
Professional fees	(775)	(2,585)	(1,810)	(70)%
General and administration	(2,673)	(3,425)	(752)	(22)%
Impairment of intangible assets	-	(538)	(538)	(100)%
Loss on discontinued operations	(14,239)	(14,716)	(477)	(3)%
Other income (expenses), net	(1,423)	4,416	(5,839)	(132)%
Net loss	\$ (19,409)	\$ (17,530)	\$ (1,879)	11%

Operating Expenses

Consulting Fees

Consulting fees for the years ended September 30, 2023, and 2022 totaled approximately \$299,000 and \$682,000, respectively. The decrease of \$383,000 is primarily related to stock-based compensation expenses recognized during the year ended September 30, 2022, for restricted stock awards and warrants to acquire the Company's common stock issued to consultants.

Professional Fees

Professional fees for the years ended September 30, 2023, and 2022 totaled approximately \$775,000 and \$2.6 million, respectively. The decrease of \$1.8 million is primarily related to legal, accounting, and other professional fees incurred as a result of acquisitions during the year ended September 30, 2022.

General and Administrative

General and administrative expenses for the years ended September 30, 2023, and 2022 totaled approximately \$2.7 million and \$3.4 million, respectively. The decrease of approximately \$752,000 is primarily related to a decrease in costs related to the sale and discontinuance of operations impacting advertising and promotion, office expenses, and salaries.

Impairment Expense

Impairment expense – During the year ended September 30, 2023, the Company recorded impairment expense totaling \$6,832 related to closing of the Stem Holdings, Oregon grow facility in the amount of \$470,732, goodwill of \$1,522, right of use asset of \$1,639, \$2,646 of long-lived assets and 555,000 of licenses. In September 2022, the Company recorded impairment expense of approximately \$288,000 related to equity method investments, \$250,000 related to recission of a planning and zoning license, \$256,725 related to other investments for the year ended September 30, 2022.

Other Income

Other income for the year ended September 30, 2023, and 2022 totaled approximately \$(1.4) and \$4.4 million, respectively. Other income in the fiscal year ended September 30, 2023 included interest expense of 1.4 million offset with a gain on change in fair value of 326,000, and losses of 125,000 from both change in value of warrant liability and foreign currency exchange loss as opposed to primarily a gain on extinguishment of debt of \$0.8 million, change in fair value of warrant liability of \$2.3 million, other income of \$2.0 million, offset by interest expense of \$0.7 million.

Loss from Equity Method Investees

The Company recognized no losses from equity method investees.

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2023, we had negative working capital of approximately \$0.7 million which included cash and cash equivalents of \$1.5 million. We reported a net loss of approximately \$19 million and our net cash used in operating expenses totaled \$1.2 million, net of \$2.0 million of cash provided by discontinued operations, our cash used by investing activities was nil and net cash provided in financing activities totaled \$1.2 million.

Going Concern

On September 30, 2023, the Company had approximate balances of cash and cash equivalents of \$1.5 million, negative working capital of \$0.7 million, total stockholders' deficit of \$631 thousand and an accumulated deficit of \$152 million.

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

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

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

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

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

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

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

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

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

Critical Accounting Policies

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

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

Held for Sale

Assets and liabilities to be disposed of by sale are classified as "held for sale" if their carrying amounts are principally expected to be recovered through a sale transaction rather than through continuing use. The classification occurs when the disposal group is available for immediate sale and the sale is probable. These criteria are generally met when management has committed to a plan to sell the assets within one year. Disposal groups are measured at the lower of carrying amount or fair value less costs to sell, and long-lived assets included within the disposal group are not depreciated or amortized, in accordance with ASC 360, "*Property, Plant and Equipment*." The fair value of a disposal group, less any costs to sell, is assessed during each reporting period it remains classified as held for sale, and any remeasurement to the lower of carrying value or fair value less costs to sell is reported as an adjustment to the carrying value of the disposal group. When the net realizable value of a disposal group increases during a period, a gain can be recognized to the extent that it does not increase the value of the disposal group beyond its original carrying value when the disposal group was reclassified as held for sale. Refer to Note 3, "*Discontinued Operations, Assets and Liabilities Held for Sale*," for additional information.

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.

Embedded Conversion Features

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

Revenue Recognition

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

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

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

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

Cannabis Dispensary, Cultivation and Production

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

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

Delivery

1) Identify the contract with a customer

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

2) Identify the performance obligations in the contract

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

3) Determine the transaction price

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

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

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

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

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

Fair Value of Financial Instruments

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

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

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

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

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

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

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

Stock-based Compensation

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

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

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

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

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

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

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

Earnings (Loss) per Share

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

Basic net loss per share of common stock excludes dilution and is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share of common stock reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity unless inclusion of such shares would be anti-dilutive. Since the Company has only incurred losses, basic and diluted net loss per share is the same. Securities that could potentially dilute loss per share in the future that were not included in the computation of diluted loss per share as of September 30, 2023, and 2022 are as follows:

	September 30, 2023	September 30, 2022
<i>Potentially dilutive share-based instruments:</i>		
Convertible notes	881,628	3,250

Options to purchase common stock	1,241	552
Unvested restricted stock awards	-	-
Warrants to purchase common stock	1,777	6,578
	<u>884,646</u>	<u>10,380</u>

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Operations</u>	F-4
<u>Consolidated Statement of Changes in Stockholders' Equity</u>	F-5
<u>Consolidated Statements of Cash Flows</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Stem Holdings, Inc. (the “Company”) as of September 30, 2023 and 2022, and the related statements of operations, stockholders’ equity, and cash flows for each of the years in the two-year period ended September 30, 2023, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2023, in conformity with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Company’s Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company had a net loss of approximately \$19 million, negative working capital of \$0.7 million, and an accumulated deficit of \$152 million as of and for the year ended September 30, 2023. In addition, the Company has operated in the production and sale of cannabis and related products, an activity that is illegal under United States Federal law for any purpose, by way of Title II of the Comprehensive Drug Abuse Prevention and Control Act of 1970, otherwise known as the Controlled Substances Act of 1970 (the “ACT”). These facts raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

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

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there were no critical audit matters.

/s/ LJ Soldering Associates, LLC

We have served as the Company’s auditor since 2017.
Deer Park, IL
May 24, 2024
PCAOB ID: 0000318

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

	September 30, 2023	September 30, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 961	\$ 1,524
Restricted cash	545	-
Note receivable	1,300	-
Prepaid expenses and other current assets	278	416
Assets held for sale	10,235	29,013
Total current assets	<u>13,319</u>	<u>30,953</u>
Due from related party	28	28
Total assets	<u><u>\$ 13,347</u></u>	<u><u>\$ 30,981</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	1,399	1,267
Convertible notes, net	2,111	1,073
Short term notes and advances	229	438
Derivative liability	448	370
Warrant liability	134	55
Liabilities held for sale	9,657	10,741
Total current liabilities	<u>13,978</u>	<u>13,944</u>
Total liabilities	<u>13,978</u>	<u>13,944</u>
Commitments and contingencies (Note 17)	-	-
Shareholders' equity		
Preferred stock, Series A; \$0.001 par value; 50,000,000 shares authorized, none outstanding as of September 30, 2023 and September 30, 2022	-	-
Preferred stock, Series B; \$0.001 par value; 50,000,000 shares authorized, none outstanding as of September 30, 2023 and September 30, 2022	-	-
Common stock, \$0.001 par value; 750,000,000 shares authorized; 2,810,094 and 2,270,140 shares issued, issuable and outstanding as of September 30, 2023 and September 30, 2022, respectively	3	2
Additional paid-in capital	150,471	148,675
Distribution	(56)	-
Accumulated deficit	(152,136)	(133,118)
Total Stem Holdings stockholder's equity	<u>(1,718)</u>	<u>15,559</u>
Noncontrolling interest	1,087	1,478
Total shareholders' equity (deficit)	<u>(631)</u>	<u>17,037</u>
Total liabilities and shareholders' equity	<u><u>\$ 13,347</u></u>	<u><u>\$ 30,981</u></u>

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

STEM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended September 30, 2023 and 2022
(in thousands except for share and per share amounts)

	For the Years Ended September 30,	
	2023	2022
Operating expenses:		
Consulting fees	\$ 299	\$ 682
Professional fees	775	2,585
General and administrative	2,673	3,425
Impairment expense	-	538
Total operating expenses	3,747	7,230
Loss from operations	(3,747)	(7,230)
Other income (expenses), net		
Interest expense	(1,238)	(650)
Change in fair value of derivative liability	(78)	(31)
Change in fair value of warrant liability	(79)	2,327
Foreign currency exchange gain (loss)	(46)	-
Other income	18	1,997
Gain on extinguishment of debt	-	803
Other loss	-	(30)
Total other income (expense)	(1,423)	4,416
Loss from continuing operations	(5,170)	(2,814)
Loss from discontinued operations, net of tax	(14,239)	(14,716)
Net income (loss)	\$ (19,409)	\$ (17,530)
Net loss attributable to non-controlling interest	(391)	(162)
Net loss attributable to Stem Holdings	\$ (19,018)	\$ (17,368)
Net income (loss) per share:		
Basic and diluted net income (loss) from continuing operations, per share	\$ (2.04)	\$ (1.24)
Basic and diluted net income (loss) from discontinued operations, per share	(5.63)	(6.51)
Basic and diluted net income (loss), per share	\$ (7.67)	\$ (7.75)
Weighted-average shares outstanding		
Basic	2,531,668	2,261,682
Diluted	2,531,668	2,261,682

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

STEM HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended September 30, 2023 and 2022
(in thousands, except for share and per share amounts)

	Common Stock		Additional	Subscription	Accumulated	Total Stem	Non-	Total
	Shares	Amount	Paid-in	Receivable	Deficit	Holdings	Controlling	Shareholders'
			Capital			Shareholders'	Interest	Equity
						Equity		Equity
Balance as of September 30, 2021	2,299,886	\$ 2	\$ 148,477	\$ (135)	\$ (115,750)	\$ 32,594	\$ 1,640	\$ 34,234
Common stock issued for cash	32,236	-	285	-	-	285	-	285
Issuance of common stock in connection with consulting agreement	1,300	-	30	-	-	30	-	30
Stock based compensation	31,375	-	313	-	-	313	-	313
Issuance of common stock related to interest expense	17,512	-	121	-	-	121	-	121
Common stock issued related to conversion of debt	2,898	-	6	-	-	6	-	6
Common stock cancelled related to discontinued operations	(115,067)	-	(1,181)	135	-	(1,046)	-	(1,046)
Issuance of warrants in connection with consulting agreement	-	-	158	-	-	158	-	158
Issuance of options in connection with employment agreement	-	-	454	-	-	454	-	454
Issuance of warrants in connection with extension of debenture maturity	-	-	12	-	-	12	-	12
Net loss	-	-	-	-	(17,368)	(17,368)	\$ (162)	(17,530)
Balance as of September 30, 2022	2,270,140	\$ 2	148,675	\$ -	\$ (133,118)	\$ 15,559	\$ 1,478	\$ 17,037
Issuance of common stock in connection with consulting agreement	3,500	-	9	-	-	9	-	9
Stock based compensation	11,375	-	23	-	-	23	-	23
Issuance of common stock in connection with convertible debt	127,877	-	250	-	-	250	-	250
Issuance of options in connection with employment agreement	-	-	87	-	-	87	-	87
Distribution related to YMY	-	-	-	(56)	-	(56)	-	(56)
Issuance of common stock related to interest expense and rent expense	167,202	1	219	-	-	220	-	220
Issuance of options in connection with consulting agreement	-	-	153	-	-	153	-	153
Issuance of warrants stock in connection with convertible debt	-	-	9	-	-	9	-	9
Issuance of common stock in connection with employment agreement	100,000	-	100	-	-	100	-	100
Debt discount related convertible debt	-	-	816	-	-	816	-	816
Issuance of shares in connection with advisory agreement and finder's fee	30,000	-	30	-	-	30	-	30
Issuance of common stock in connection with board member agreement	100,000	-	100	-	-	100	-	100
Net loss	-	-	-	-	(19,018)	(19,018)	(391)	(19,409)

Balance as of September 30, 2023	<u>2,810,094</u>	<u>\$ 3</u>	<u>\$ 150,471</u>	<u>\$ (56)</u>	<u>\$ (152,136)</u>	<u>\$ (1,718)</u>	<u>\$ 1,087</u>	<u>\$ (631)</u>
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The accompanying notes are an integral part of these audited consolidated financial statements.

STEM HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2023 and 2022
(in thousands)

	For the Years Ended September 30,	
	2023	2022
Cash flows from operating activities		
Net loss	\$ (19,409)	\$ (17,530)
Loss from discontinued operations, net of tax	(14,239)	(14,716)
Loss from continuing operations	(5,170)	(2,814)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	313	797
Issuance of common stock in connection with consulting agreements	189	263
Amortization of debt discount	817	96
Non-cash interest and rent	220	-
Gain on extinguishment of debt	-	(803)
Change in fair value of warrant liability and derivative liability	158	(2,296)
Foreign currency adjustment	(50)	4
Gain on sale of equity method investments		(488)
Gain on sale of property	-	(1,370)
Prepaid expenses and other current assets	138	390
Accounts payable and accrued expenses	195	287
Net cash used in continuing operating activities	(3,190)	(5,934)
Net cash provided by discontinued operating activities	1,955	987
Net cash used in operating activities	(1,235)	(4,947)
Cash flows from investing activities		
Investments	-	(82)
Cash received related to sale of equity method investment and note receivable	-	1,651
Net cash provided by investing activities	-	1,569
Cash flows from financing activities		
Proceeds from the issuance of common stock	-	285
Notes payable and advanced proceeds	1,350	-
Repayments of notes payable	(133)	(847)
Net cash provided by (used in) financing activities from continuing operations	1,217	(562)
Net increase (decrease) in cash and cash equivalents	(18)	(3,940)
Cash, cash equivalents, and restricted cash at the beginning of the period	1,524	5,464
Cash, cash equivalents, and restricted cash at the end of the period	\$ 1,506	\$ 1,524
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 262	\$ 308
Cash paid for taxes	\$ -	\$ -
Supplemental disclosure of noncash activities:		
Non-cash repayment of finance liability	\$ -	\$ 1,092
Non-cash repayment of mortgages	\$ 1,150	\$ -
Financed Insurance	\$ -	\$ 449
Interest paid in the form of common stock	\$ -	\$ 67
Beneficial conversion of debt discount	\$ 816	\$ -
Refinancing of mortgage	\$ -	\$ 1,100
Conversion of debt to equity	\$ 250	\$ -

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

STEM HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Incorporation and Operations and Going Concern

Stem Holdings, Inc. (“Stem” or the “Company”) is a Nevada corporation incorporated on June 7, 2016, and was operating as an 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 provided direct-to consumer proprietary logistics and an omnichannel UX (user experience)/CX (customer experience). As of September 30, 2023, the Company has discontinued its cannabis operations, and all cannabis related assets are held-for-sale as of September 30, 2023.

The Company had purchased, improved, leased, and operated, however, no longer invests in properties for use in the production, distribution and sales of cannabis and cannabis-infused products. Stem has ownership interests in 17 state issued cannabis licenses including nine (9) licenses for cannabis cultivation, two (2) licenses for cannabis processing, one (1) licenses for cannabis wholesale distribution, and five (5) cannabis dispensary licenses.

The Company has eight 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 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. 7LV USA Corporation, a former wholly-owned subsidiary, was sold during the quarter ended September 30, 2023.

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.

On December 27, 2023, the Company’s shareholders approved a proposal to implement a reverse split of the Company’s Common Stock within a range of one for ten shares and one for one-hundred shares, at the discretion of the Board of Directors prior to December 27, 2023. At this time, the Board of Directors has approved a reverse split utilizing a ratio of one share for each one-hundred shares to be implemented prior to December 27, 2023. As a result of the reverse split, the Company’s 557,999,222 then outstanding shares were converted into 5,579,992 post-split shares. All fractional interests resulting from the reverse split were rounded up to the nearest whole share.

Going Concern

On September 30, 2023, the Company had approximate balances of cash, cash equivalents, and restricted cash of \$1.5 million, and working capital deficit of approximately \$0.7million, and an accumulated deficit of \$152 million.

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

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

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

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

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

1. Preventing the distribution of marijuana to minors;
2. Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels;
3. Preventing the diversion of marijuana from states where it is legal under state law in some form to other states;
4. Preventing the state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
5. Preventing violence and the use of firearms in the cultivation and distribution of marijuana;
6. Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;
7. Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
8. Preventing marijuana possession or use on federal property.

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

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

Nonetheless, there is no guarantee that state laws legalizing and regulating the sale and use of marijuana will not be repealed or overturned or that local government authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the CSA with respect to marijuana (and as to the timing or scope of any such potential amendments, there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law. Currently, in the absence of uniform federal guidance, as had been established by the Cole Memorandum, enforcement priorities are determined by respective United States Attorneys.

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

1. Continuously monitor our operations for compliance with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;
2. Ensure that our cannabis-related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted only for adult-use, the products are only sold to individuals who meet the requisite age requirements);
3. Implement policies and procedures to prevent the distribution of our cannabis products to minors;
4. Implement policies and procedures in place to avoid the distribution of the proceeds from our operations to criminal enterprises, gangs, or cartels;
5. Implement an inventory tracking system and necessary procedures to reliably track inventory and prevent the diversion of cannabis or cannabis products into those states where cannabis is not permitted by state law or across any state lines in general;
6. Monitor the operations at our facilities so that our state-authorized cannabis business activity is not used as a cover or pretense for trafficking of other illegal drugs or engaging in any other illegal activity; and
7. Implement quality controls so that our products comply with applicable regulations and contain necessary disclaimers about the contents of the products to avoid adverse public health consequences from cannabis use and discourage impaired driving.

In addition, we frequently conduct background checks to confirm that the principals and management of our operating subsidiaries are of good character and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or the use of firearms in the cultivation, manufacturing, or distribution of cannabis. We also conduct ongoing reviews of the activities of our cannabis businesses, the premises on which they operate, and the policies and procedures related to the possession of cannabis or cannabis products outside of the licensed premises. Moreover, in recent years, certain temporary federal legislative enactments that protect the medical marijuana and hemp industries have also been in effect. For instance, certain marijuana businesses receive a measure of protection from federal prosecution by operation of temporary appropriations measures that have been enacted into law as amendments (or “riders”) to federal spending bills passed by Congress and signed by Presidents Obama, Trump, and, most recently, President Biden. For instance, in the Appropriations Act of 2015, Congress included a budget “rider” that prohibits DOJ from expending any funds to enforce any law that interferes with a state’s implementation of its own medical marijuana laws. The rider originally known as the “Rohrbacher-Farr” Amendment after its original lead sponsors is now known as the “Joyce” Amendment after its current sponsor. Originally, a Republican-controlled House and Democratic-controlled Senate passed the Rohrbacher-Farr Amendment. The bill was “a bipartisan appropriations measure that looks to prohibit the DEA from spending funds to arrest state-licensed medical marijuana patients and providers.” Subsequently, the rider has been included in multiple budgets passed by successive Congresses controlled by both major political parties. Most recently, on February 18, 2022, the Amendment was renewed through the signing of an additional stopgap spending bill, H.R.6617 - Further Additional Extending Government Funding Act, effective through March 11, 2022. While the Amendment has been included in successive appropriations legislation or resolutions since 2015, its inclusion or non-inclusion is subject to political change.

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. The most significant estimates included in these consolidated financial statements are those associated with the assumptions used to value equity instruments, valuation of its long-lived assets for impairment testing, valuation of intangible assets, the valuation of inventory and assets and liabilities held for sale. 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, (sold during the fiscal year ended September 30, 2023), and Stem Oregon Acquisitions 1 Corp., and Driven Deliveries, Inc. (sold during the fiscal year ended September 30, 2022). In addition, the Company has consolidated YMY Ventures, LLC and NVD RE, Inc. under the variable interest requirements.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents. The Company's cash is primarily maintained in checking accounts. These balances may, at times, exceed the U.S. Federal Deposit Insurance Corporation insurance limits. As of September 30, 2023, and 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.

Accounts Receivable

Accounts receivable is shown on the face of the consolidated balance sheets, net of an allowance for doubtful accounts. The Company analyzes the aging of accounts receivable, historical bad debts, customer creditworthiness and current economic trends, in determining the allowance for doubtful accounts. The Company does not accrue interest receivable on past due accounts receivable. As of September 30, 2023, and 2022 the reserve for doubtful accounts was \$4 and \$79 for the respective periods, and is included in discontinued operations (see Note 3).

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 included in discontinued operations (see Note 3).

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, and is included in discontinued operations (see Note 3).

Held for Sale

Assets and liabilities to be disposed of by sale are classified as "held for sale" if their carrying amounts are principally expected to be recovered through a sale transaction rather than through continuing use. The classification occurs when the disposal group is available for immediate sale and the sale is probable. These criteria are generally met when management has committed to a plan to sell the assets within one year. Disposal groups are measured at the lower of carrying amount or fair value less costs to sell, and long-lived assets included within the disposal group are not depreciated or amortized, in accordance with ASC 360, "Property, Plant and Equipment." The fair value of a disposal group, less any costs to sell, is assessed during each reporting period it remains classified as held for sale, and any remeasurement to the lower of carrying value or fair value less costs to sell is reported as an adjustment to the carrying value of the disposal group. When the net realizable value of a disposal group increases during a period, a gain can be recognized to the extent that it does not increase the value of the disposal group beyond its original carrying value when the disposal group was reclassified as held for sale. Refer to Note 3, "Discontinued Operations, Assets and Liabilities Held for Sale," for additional information.

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. Property and equipment, net, are included in discontinued operations (see note 3).

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

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

Impairment of Long-Lived Assets

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

The Company assesses the recoverability of its long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of long-lived assets over their remaining estimated useful lives against their respective carrying amounts. In cases where estimated future net undiscounted cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset or asset group. Fair value is generally determined using the assets expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated and amortized prospectively over the newly determined remaining estimated useful lives. The Company's long-lived assets are included in discontinued operations (see Note 3).

Equity Method Investments

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

During the years ended September 30, 2023, and 2022, the Company had no investee gains or losses.

No investments were impaired during the year ended September 30, 2023, and investments of \$795 thousand were impaired during the fiscal year ended September 30, 2022.

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. Goodwill impairment expense of \$1.5 million and \$5.9 million was incurred for the years ended September 30, 2023, and 2022 respectively, which is included in discontinued operations (see note 3).

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. Definite-lived intangible assets were impaired by \$2.6 million and \$1.9 million for the years ended September 30, 2023, and 2022 respectively, which is included in discontinued operations (see Note 3).

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 as a change in fair value. The fair value of the warrants issued by the Company has been estimated using a Black Scholes model.

Embedded Conversion Features

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

Income Taxes

The provision for income taxes is determined in accordance with ASC 740, "Income Taxes". The Company files a consolidated United States federal income tax return. The Company provides for income taxes based on enacted tax law and statutory tax rates at which items of income and expense are expected to be settled in our income tax return. Certain items of revenue and expense are reported for Federal income tax purposes in different periods than for financial reporting purposes, thereby resulting in deferred income taxes. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company has incurred net operating losses for financial-reporting and tax-reporting purposes. As of September 30, 2023, and 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 more likely than not 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 federal 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.

Revenue for each of the years ended September 30, 2023 and 2022 are included in discontinued operations (see note 3).

Leases

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

Our lease agreements generally do not provide an implicit borrowing rate; therefore, an internal incremental borrowing rate is determined based on information available at lease commencement date for purposes of determining the present value of lease payments. We used the incremental borrowing rate on September 30, 2023, for all leases that commenced prior to that date. In determining this rate, which is used to determine the present value of future lease payments, we estimate the rate of interest we would pay on a collateralized basis, with similar payment terms as the lease and in a similar economic environment.

Under Topic 842, operating lease expense is generally recognized evenly over the term of the lease. Lease costs were \$1,370 and \$1,224 for the years ended September 30, 2023, and 2022, respectively. There was no sublease rental income respectively for the years ended September 30, 2023, and 2022. The Company has eight operating leases consisting with remaining lease terms ranging monthly to 177 months, and is included in discontinued operations (see Note 3).

Lease Costs

	Years Ended September 30,	
	2023	2022
Components of total lease costs:		
Operating lease expense	\$ 1,370	1,224
Total lease costs	\$ 1,370	\$ 1,224

Leases for each of the years ended September 30, 2023 and 2022 are included in discontinued operations (see note 3)

Geographical Concentrations

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

Cost of Goods Sold

Cost of sales represents costs directly related to manufacturing and distribution of the Company’s products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling and the depreciation of manufacturing equipment and production facilities. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance, and property taxes. The Company recognizes the cost of sales as the associated revenues are recognized. Cost of goods sold for each of the years ended September 30, 2023 and 2022 are included in discontinued operations (see note 3)

Fair Value of Financial Instruments

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

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

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

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

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

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

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

Stock-based Compensation

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

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

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

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

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

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

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

Earnings (Loss) per Share

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

Basic net loss per share of common stock excludes dilution and is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share of common stock reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity unless inclusion of such shares would be anti-dilutive. Since the Company has only incurred losses, basic and diluted net loss per share is the same. Securities that could potentially dilute loss per share in the future that were not included in the computation of diluted loss per share as of September 30, 2023, and 2022 are as follows:

<i>Potentially dilutive share-based instruments:</i>	September 30, 2023	September 30, 2022
Convertible notes	881,628	3,250
Options to purchase common stock	1,241	552
Unvested restricted stock awards	-	-
Warrants to purchase common stock	1,777	6,578
	<u>884,645</u>	<u>10,381</u>

Advertising Costs

The Company follows the policy of charging the cost of advertising to expense as incurred. Advertising expense was \$103 thousand and \$266 thousand for the year ended September 30, 2023, and 2022, 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.

3. Discontinued Operations, Assets and Liabilities Held for Sale

Discontinued Operations

During the quarter ended September 30, 2023, the Company's Board of Directors approved a plan to sell all of its businesses and associated subsidiaries.

The following table presents the assets and liabilities associated with the discontinued operations of the Company. (in thousands):

	September 30, 2023	September 30, 2022
ASSETS		
Current assets		
Accounts receivable, net of allowance for doubtful accounts	\$ 158	\$ 313
Note receivable	166	-
Inventory	894	2,675
Prepaid expenses and other current assets	360	513
Total current assets	<u>1,578</u>	<u>3,501</u>
Property and equipment, net	2,321	9,089
Deposits and other assets	13	13
Right of use asset	6,039	6,874
Intangible assets, net	284	8,014
Goodwill	-	1,522
Total assets	<u>\$ 10,235</u>	<u>\$ 29,013</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	623	1,043
Convertible notes, net	-	404
Current maturities of long-term debt	400	1,000
Short term notes and advances	6	13
Lease liability	430	580
Total current liabilities	<u>1,459</u>	<u>3,040</u>
Lease liability - long term	7,523	6,476
Long-term debt, mortgages	675	1,225
Total liabilities	<u>\$ 9,657</u>	<u>\$ 10,741</u>

The total assets and total liabilities in the above table for the year ended September 30, 2023, are presented in the balance sheet as of September 30, 2023, as Assets held for sale and Liabilities held for sale.

The following table presents the revenue and expenses associated with the discontinued operations of the Company. (in thousands):

	Year Ended September 30,	
	2023	2022
Revenues	\$ 14,158	\$ 16,563
Cost of goods sold	12,126	14,440
Gross Profit	2,032	2,123
Operating expenses:		
Consulting fees	-	2
Professional fees	68	87
General and administrative	5,521	7,700
Impairment expense	6,832	8,132
Total operating expenses	12,421	15,921
Loss from operations	(10,389)	(13,798)
Other income (expenses)		
Foreign currency exchange gain (loss)	61	(4)
Loss from disposal of subsidiary	(3,911)	(914)
Total other income (expense)	(3,850)	(918)
Net loss	\$ (14,239)	\$ (14,716)

4. Prepaid expenses and other current assets

Prepaid expenses and other current assets are assets and payments previously made, that benefit future periods. The balance as of September 30, 2023, includes the Employee Retention Tax Credit (“ERTC”) program from the U.S Treasury, as part of the COVID-19 stimulus package. The remaining balance of the ERTC receivable was approximately \$201 thousand as of September 30, 2023.

Prepaid and other current assets comprised of the following:

	September 30, 2023	September 30, 2022
Prepaid expenses	\$ 163	\$ 100
Deposits and other current assets	115	316
Total prepaid expenses and other current assets	<u>\$ 278</u>	<u>\$ 416</u>

5. 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 September 30, 2023				
	NCI Equity Share	Net Loss Attributable to NCI	NCI in Consolidated Entities	Non-Controlling Ownership %
NVD RE Corp.	\$ 516	\$ (470)	\$ 46	36.2%
Western Coast Ventures, Inc.	839	\$ -	839	49.0%
YMY Ventures, Inc.	329	\$ 79	408	50.0%
Michigan RE 1, Inc.	(206)	\$ -	(206)	49.0%
	<u>\$ 1,478</u>	<u>\$ (391)</u>	<u>\$ 1,087</u>	

6. Asset Sales

On January 3, 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 and its leasehold improvements was \$275,000 and excluding the cultivation license. At the closing the Company received \$56,055 net of a \$200,000 mortgage that was paid off along with broker fees. The Company recorded a loss on sale of approximately \$1 million.

On March 15, 2023, the Company executed an Asset Purchase Agreement in which certain assets were sold for \$200,000. In the terms of the agreement the buyer purchased one Marijuana Processor License, one Marijuana Wholesaler license, assumed certain liabilities. The licenses had a recorded value of \$222,427 and accumulated amortization of \$9,270. The purchase price for the assets was \$200,000 with \$10,000 payable immediately at closing and the balance of \$190,000 payable in thirty-six monthly installments commencing the first business day of the first calendar month after the closing date. The first 35 installments will be \$5,278 and the last payment will be \$5,278. The Company realized a loss on sale of approximately \$18,000.

7. Accounts payable and accrued expenses

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

	September 30, 2023	September 30, 2022
Accounts payable	1,178	\$ 1,140
Accrued credit cards	14	14
Accrued interest	77	113
Other	130	-
Total Accounts Payable and Accrued Expenses	1,399	1,267

8. Notes Payable and Advances

The following table summarizes the Company's short-term notes and advances, acquisition note payable, due to related party loans, and long-term debt, mortgages as of September 30, 2023, and 2022:

	September 30, 2023	September 30, 2022
Equipment financing	\$ 15	\$ 20
Insurance financing	64	126
Promissory note	150	292
Total notes payable and advances	\$ 229	\$ 438

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 September 30, 2023, the balance outstanding is \$15,166.

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 September 30, 2023, the obligation has been paid.

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 September 30, 2023, 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 September 30, 2023, the obligation outstanding is \$0.

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 September 30, 2023, the obligation outstanding is \$0.

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 September 30, 2023, the obligation outstanding is \$0.

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 September 30, 2023, the obligation has been paid.

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 September 30, 2023, the obligation has been satisfied.

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 September 30, 2023, the obligation has been satisfied.

Effective April 2023, the Company entered into a 10-month premium finance agreement for an insurance policy in the principal amount of \$21,000. The note bears an annual interest rate of 12.12%. The Company paid \$8,392 as a down payment in April 2023, the note requires the Company to make 10 monthly payments of \$1,696 over the remaining term of the note. As of September 30, 2023, the obligation outstanding is \$8,481.

Effective May 2023, the Company entered into a 10-month premium finance agreement for an insurance policy in the principal amount of \$5,892. The note bears an annual interest rate of 14.50 %. The Company paid \$1,265 as a down payment in May 2023, the note requires the Company to make 10 monthly payments of \$ 462.73 over the remaining term of the note. As of September 30, 2023, the obligation outstanding is \$3,239.

Effective August 2023, the Company entered into a 10-month premium finance agreement for an insurance policy in the principal amount of \$67,044. The note bears an annual interest rate of 11.25 %. The Company paid \$19,225 as a down payment in August 2023, the note requires the Company to make 10 monthly payments of \$ 5,050 over the remaining term of the note. As of September 30, 2023, the obligation outstanding is \$45,446.

Effective August 2023, the Company entered into a 6-month installment agreement for an insurance policy in the principal amount of \$9,742. The obligation bears no interest. The Company paid \$3,971 as a down payment in August 2023, the agreement requires the Company to make 3 payments of \$1,923 over the remaining term of the policy. As of September 30, 2023, the obligation outstanding is \$5,771.

Effective August 2023, the Company entered into a 4-month installment agreement for an insurance policy in the principal amount of \$925. The obligation bears no interest. The Company paid \$445 as a down payment in August 2023, the agreement requires the Company to make 2 payments of \$240 over the remaining term of the policy. As of September 30, 2023, the obligation outstanding is \$480.

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 was 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 September 30, 2023, was \$150,000.

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 September 30, 2023, the Company executed a sale lease back agreement with the Company's Powell property and entered into a 10-year lease with an unrelated third party located in Wichita, KS. The lease requires the Company to pay a starting base rental fee of \$7,714 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 \$354,000 and a loss on sale of \$249,000, recorded within loss from discontinued operations..

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 September 30, 2023, the obligation outstanding is \$400,000, which is included in liabilities held for sale.. Subsequently, the Company has exercised its right to extend the maturity by incurring an additional fee.

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 March 31, 2023, 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. As of September 30, 2023, the Company executed a sale lease back agreement with the Company's Willamette property and entered into a 10-year lease with an unrelated third party located in Santa Cruz, CA. The lease requires the Company to pay a starting base rental fee of \$11,667 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 \$556,000 and a loss on sale of \$482,000, recorded within loss from discontinued operations.

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 September 30, 2023, pursuant to a sales agreement, the property was sold for \$275,000. This transaction resulted in net proceeds to the Company in the amount of \$56,000 and a loss on sale of \$894,000 recorded loss on sale which was recorded within loss from discontinued operations.

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 September 30, 2023, the Company refinanced this obligation in the amount of \$675,000 and paid off the principal balance of \$400,000. The refinanced mortgage term is 24 months and includes an interest rate of 15% and monthly interest only payments of \$8,437. The remaining balance was \$675,000 as of September 30, 2023, and is included in liabilities held for sale.

The following is a table of the 5-year runoff of our long-term debt recorded in liabilities held for sale as of September 30:

2023	\$	400
2024		-
2025		675
2026		-
2027		-
Thereafter		-
		<u>1,075</u>
Less current portion of long-term debt:		<u>(400)</u>
	\$	<u>675</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 within the loss from discontinued operations.

9. Convertible debt

In January 2023, the Company 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. As of September 30, 2023, the note balance was \$150,000, and has subsequently been satisfied.

During March 2023, the Company executed a \$100,000 unsecured convertible promissory note. The Note bears an interest rate of 7.5% per annum payable quarterly either in cash or in kind. The Note becomes due and payable on March 7, 2024, and is subject to a voluntary conversion by the Holder at the conversion rate of \$0.01 a share. Additionally, upon this conversion, the noteholder is entitled to 100 percent cashless warrant coverage entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after conversion. If the noteholder elects to redeem the note, the holder would be entitled to accrued interest along with three times cashless warrant coverage based on the initial investment entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after redemption.

During March 2023, the Company executed a \$50,000 unsecured convertible promissory note. The Note bears an interest rate of 7.5% per annum payable quarterly either in cash or in kind. The Note becomes due and payable on March 7, 2024, and is subject to a voluntary conversion by the Holder at the conversion rate of \$0.01 a share. Additionally, upon this conversion, the noteholder is entitled to 100 percent cashless warrant coverage entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after conversion. If the noteholder elects to redeem the note, the holder would be entitled to accrued interest along with three times cashless warrant coverage based on the initial investment entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after redemption.

During April 2023, the Company executed a \$50,000 unsecured convertible promissory note. The Note bears an interest rate of 7.5% per annum payable quarterly either in cash or in kind. The Note becomes due and payable on March 7, 2024, and is subject to a voluntary conversion by the Holder at the conversion rate of \$0.01 a share. Additionally, upon this conversion, the noteholder is entitled to 100 percent cashless warrant coverage entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after conversion. If the noteholder elects to redeem the note, the holder would be entitled to accrued interest along with three times cashless warrant coverage based on the initial investment entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after redemption.

During April 2023, the Company executed a series of secured convertible promissory notes totaling \$545,000. The Notes bears an interest rate of 7.5% per annum payable quarterly either in cash or in kind. The Note becomes due and payable on March 7, 2024, and is subject to a voluntary conversion by the Holder at the conversion rate of \$0.01 a share. Additionally, upon this conversion, the noteholder is entitled to 100 percent cashless warrant coverage entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after conversion. If the noteholder elects to redeem the note, the holder would be entitled to accrued interest along with three times cashless warrant coverage based on the initial investment entitling the holder to purchase one common share at a price of \$0.02 for a period of five years, (60) months after redemption. These debentures are collateralized pursuant to a security and escrow agreement whereas the funds are set aside to fund the debentures upon the holder's decision to either convert or redeem the note.

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 June 30, 2023, and September 30, 2022, the convertible debt related to the above debentures was \$2.0 million and \$1.5 million, net of a debt discount of \$600 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 twelve months ended September 30, 2023, in USD, (*in thousands*):

	<u>Warrant Liability</u>	<u>Derivative Liability</u>
Balance as of September 30, 2022	\$ 55	\$ 370
Change in fair value	79	78
Balance as of September 30, 2023	\$ 134	\$ 448

As of November 29, 2023, in connection with its offering of special warrants, which closed on December 27, 2018 and March 14, 2019, the Corporation has issued 8.00% senior unsecured convertible debentures of the Corporation; and the Debentures were issued pursuant to a trust indenture dated December 27, 2018 between Olympia Trust Company and the Corporation, as amended ; the board of directors of the Corporation has determined it to be in the best interests of the Corporation to amend the Debenture Indenture to: (i) reprice the Debentures from the current conversion price of C\$0.10 per Common Share to US\$0.01 per Debenture Share; and (ii) permit the Corporation to force the conversion of the principal amount of the then outstanding Debentures and any accrued and unpaid interest thereon at the New Conversion Price at any time, in the sole discretion of the Corporation in accordance with the policies of the CSE and the terms of the Debenture Indenture, the Debenture Amendments were approved by extraordinary resolution by the holders of the holders of the Debentures at a meeting of the Debenture holders on November 29, 2023; to effect the Debenture Amendments, the Board has determined it to be in the best interests of the Corporation to enter into a supplemental indenture with the Trustee, dated on or around the date hereof (the "Supplemental Indenture"); the Board has determined it to be in the best interests of the Corporation to force the conversion of the principal amount of the outstanding Debentures any accrued and unpaid interest thereon at the New Conversion Price effective December 1, 2023 by delivering a conversion notice to the Trustee .

10. Fair Value Measurements

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

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

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

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

The following table classifies the Company's liabilities measured at fair value on a recurring basis into the fair value hierarchy as of September 30, 2023 (in thousands):

	Fair value measured at September 30, 2023			
	Fair value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant liability	\$ 134	\$ -	\$ -	\$ 134
Embedded derivative liability	448	-	-	448
Total fair value	582	\$ -	\$ -	582

There were no transfers between Level 1, 2 or 3 during the year ended September 30, 2023.

The following table presents changes in Level 3 liabilities measured at fair value for the year ended September 30, 2023. 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, 2021	\$ 2,277	\$ -	\$ 2,277
Warrants granted	105	-	105
Modification of debentures	-	339	339
Change in fair value	(2,327)	31	(2,296)
Balance - September 30, 2022	\$ 55	\$ 370	\$ 425
Warrants granted	-	-	-
Warrants granted with promissory notes	-	-	-
Options issued	-	-	-
Issuance of convertible notes	-	-	-
Change in fair value	79	78	157
Cancellation of warrants pursuant to settlement agreement	-	-	-
Balance - September 30, 2023	\$ 134	\$ 448	\$ 582

A summary of the weighted average (in aggregate) significant unobservable inputs (Level 3 inputs) used in measuring the Company's warrant liabilities and embedded conversion feature that are categorized within Level 3 of the fair value hierarchy as of September 30, 2023, and 2022 is as follows:

	Warrant Liability	
	As of September 30, 2023	As of September 30, 2022
Strike price	\$ 44.00	49.00
Contractual term (years)	2.29	1.43
Volatility (annual)	163%	100%
Risk-free rate	4.6%	4.1%
Dividend yield (per share)	0%	0%

	Embedded Derivative Liability	
	As of September 30, 2023	As of September 30, 2022
Strike price	\$ 1.00	\$ 10.00
Contractual term (years)	1.8	2.8
Volatility (annual)	192%	141%
Risk-free rate	4.88%	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 Fernades in which the three lattices incorporate (1) the Company's underlying common stock price; (2) the value of the debt components of the convertible notes; and (3) the value of the equity component of the convertible notes. The main drivers of sensitivity for the model are volatility and the credit spread. The model used will vary by approximately 1.5% for a 4% change in volatility and will vary by less than 1% for each 1% change in credit spread.

11. Income Taxes

The income tax expense (benefit) consisted of the following for the fiscal year ended September 30, 2023 and 2022:

	September 30, 2023	September 30, 2022
Total current	\$ -	\$ -
Total deferred	-	-
	<u>\$ -</u>	<u>\$ -</u>

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

The following is a reconciliation of the expected statutory federal income tax provision to the actual income tax benefit for the fiscal year ended September 30, 2023 and 2022:

	September 30, 2023	September 30, 2022
Federal statutory rate	\$ (4,852)	\$ (4,382)
Permanent timing differences	3,193	3,272
Other	(58)	(58)
Change in valuation allowance	1,717	1,168
	<u>\$ -</u>	<u>\$ -</u>

For the years ended September 30, 2023 and 2022, the expected tax benefit, temporary timing differences and long-term timing differences are calculated at the 25% statutory rate.

Significant components of the Company's deferred tax assets and liabilities were as follows for the fiscal year ended September 30, 2023 and 2022:

	September 30, 2023	September 30, 2022
Deferred tax assets:		
Net operating loss carryforwards	\$ 11,769	\$ 10,110
Equity based compensation	3,171	3,045
Impairment of loan receivable	-	-
Impairment of investments and other property	1,708	2,011
Total deferred tax assets	<u>16,648</u>	<u>15,166</u>
Deferred tax liabilities	-	-
Depreciation	49	39
Deferred revenue	-	-
Total deferred tax liabilities	<u>49</u>	<u>39</u>
Net deferred tax assets	16,599	15,127
Less valuation allowance	(16,599)	(15,127)
Net deferred tax assets (liabilities)	<u>\$ -</u>	<u>\$ -</u>

At September 30, 2023, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$37 million. The federal and state net operating loss carryforwards will expire beginning in 2038.

During the fiscal year ended September 30, 2023 and 2022 the Company recognized no amounts related to tax interest or penalties related to uncertain tax positions. The Company is subject to taxation in the United States and various state jurisdictions. The Company currently has no years under examination by any jurisdiction.

12. 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.

On December 27, 2022, the Company's shareholders approved a proposal to implement a reverse split of the Company's Common Stock within a range of one for ten shares and one for one-hundred shares, at the discretion of the Board of Directors prior to December 27, 2023. At this time, the Board of Directors has approved a reverse split utilizing a ratio of one share for each one-hundred shares to be implemented prior to December 27, 2023. As a result of the reverse split, the Company's 557,999,222 shares will be converted into 5,579,992 post-split shares. All fractional interests resulting from the reverse split will be rounded up to the nearest whole share.

Preferred shares

The Company had two series of preferred shares designated with no preferred shares issued and outstanding as of September 30, 2023, and September 30, 2022.

Common shares

During the year ended September 30, 2022, the Company issued 32,236 shares of its common stock related to a stock purchase agreement for cash of \$285,000.

During the year ended September 30, 2022, the Company issued 1,300 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 year ended September 30, 2022, the Company issued 31,375 shares of its common stock valued at \$313,000 as stock-based compensation.

During the year ended September 30, 2022, the Company cancelled 115,067 shares of the company's common stock as part of the Share Exchange Agreement, more fully described in Note 3.

During the year ended September 30, 2022, the Company converted \$121,000 of its accrued interest related to convertible debt in exchange for 17,512 shares of the company's common stock.

During the quarter ended December 31, 2022, the Company issued 3,500 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 11,375 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 73,529 shares of the company's common stock.

During the quarter ended March 31, 2023, the Company converted \$1,250 of its convertible debt in exchange for 54,348 shares of the company's common stock.

During the quarter ended March 31, 2023, the Company issued 68,953 shares of the company's common stock in payment of \$144,573 of interest and rent expense.

During the quarter ended June 30, 2023, the Company issued 200,000 shares of its common stock valued at \$1.00 as stock-based compensation in connection with employment and board agreements.

During the quarter ended June 30, 2023, the Company issued 30,000 shares of its common stock valued at \$1.00 as stock-based compensation in connection with advisory and finder's agreements.

During the quarter ended September 30, 2023, the Company issued 98,249 shares of its common stock valued at \$75 thousand as payment for interest in connection with Canaccord debentures.

13. Stock Based Compensation

Stock Options

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

The fair value of options granted during the years ended September 30, 2023, and 2022 were estimated using the following weighted-average assumptions:

Options:

-

	For the Years Ended September 30,	
	2023	2022
Exercise price	\$ 17.00	\$ 7.00
Expected term (years)	3.66	2.52
Expected stock price volatility	163%	124%
Risk-free rate of interest	4.72%	2.42%
Expected dividend rate	0%	0%

A summary of option activity under the Company's stock option plan for the year ended September 30, 2023 is presented below:

	Number of Shares	Weighted Average Exercise Price	Total Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Outstanding as of September 30, 2021	66,979	\$ 107.00	\$ -	2.09
Granted	15,000	7.00	\$ -	3.00
Expired / cancelled	(22,422)	(67.00)	\$ -	-
Outstanding as of September 30, 2022	59,557	\$ 107.00	\$ -	2.90
Granted	74,250	3.00	\$ -	3.24
Expired / cancelled	(6,000)	-	\$ -	-
Outstanding as of September 30, 2023	127,807	\$ 17.67	\$ -	3.66
Options vested and exercisable	125,932	\$ 5.00	\$ -	3.85

Estimated future stock-based compensation expense relating to unvested stock options was nominal as of September 30, 2023, and 2022. Weighted average remaining contractual life of the options is 2.60 years. The options had no intrinsic value as of September 30, 2023.

Restricted Stock

A summary of employee restricted stock activity for years ended September 30, 2023 and 2022 are presented below:

	Number of Shares	Weighted Average Exercise Price
Outstanding as of October 1, 2021	63,858	\$ 93.00
Granted (1)	26,375	11.00
Outstanding as of September 30, 2022	90,233	69.00
Granted	211,375	2.15
Outstanding as of September 30, 2023	301,608	\$ 21.45

A summary of non-employee restricted stock activity under the Company's for years ended September 30, 2023 and 2022 are presented below:

	Number of Shares	Weighted Average Exercise Price
Outstanding as of October 1, 2021	89,175	\$ 99.00
Granted	6,300	67.00
Outstanding as of September 30, 2022	95,475	97.00
Granted	33,500	1.77
Outstanding as of September 30, 2023	128,975	\$ 58.48

Warrants

A summary of the status of the Company's outstanding warrants as of September 30, 2023 and 2022 and changes during the year then ended are presented below:

	Number of Warrants	Weighted Average Exercise Price	Remaining Contractual Term
Outstanding as of September 30, 2020	51,147	\$ 213.00	1
Warrants granted – equity	326,663	53.00	2
Warrants expired – equity	(1,143)	250.00	0
Warrants granted – liability	302,991	45.00	3.04
Warrants expired – liability	(50,000)	20.00	1.51
Outstanding as of September 30, 2021	629,658	47.00	1.23
Warrants exercised – equity	(10,000)	4.00	-
Warrants granted – equity	41,737	10.00	2.00
Warrants expired – equity	(9,721)	10.00	-
Warrants granted – liability	6,157	12.00	2.00
Outstanding as of September 30, 2022	657,831	49.00	1.43
Warrants expired – equity	(518,088)	54.00	-
Warrants granted – liability	37,950	1.54	4.30
Outstanding as of September 30, 2023	177,693	\$ 17.25	1.22

Stock-based Compensation Expense

Stock-based compensation expense for the years ended September 30, 2023, and 2022 was comprised of the following (in thousands):

	Years Ended September 30,	
	2023	2022
Restricted stock awards	\$ 263	\$ 296
Stock options	240	454
Warrants	-	263
Total stock-based compensation	\$ 503	\$ 1,013

14. 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. For the year ended September 30, 2023, the Company's has accounts with a Florida bank and several credit unions located in Washington and California.

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

In July 2016, the Company entered into a 10-year lease for a commercial building from an unrelated third party in Springfield, Oregon. The lease requires the Company to pay a starting base rental fee of \$7,033 plus an additional estimated \$315 per month in real estate taxes in which the base rental fee escalates each year by approximately 2%. All taxes (including reconciling real estate taxes), maintenance and utilities are included at the end of each year as a one-time payment. In addition, the Company also remitted \$14,000 for a security deposit to the landlord. No amounts have been recorded for deferred rent in these financial statements as the amount was deemed immaterial by the Company. The Company has subleased this space pursuant to a 10-year lease. On February 22, 2018, both parties executed a lease addendum that adds contiguous property for 12,322 square feet. The term commences November 1, 2017, and continues through November 31, 2026, at a starting rate of \$3,525 a month that escalates after the first year. The Company subleases this property to a related party (see disclosures below under "Springfield Suites"). As of September 30, 2023, 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.

Legal Proceedings

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

On February 27, 2020, a subsidiary of the Company (YMY Ventures, LLC) was served with a Summons and Second Amended Complaint in a matter pending in the District Court of Clark County Nevada (Case # A-19-787004-B) which is styled "D.H. Flamingo, Inc. v. Department of Taxation, et. al." (the DOT Litigation). In this matter, the Plaintiff is alleging that certain parties (including YMY Ventures, LLC) received Conditional Recreational Marijuana Establishment Licenses, while certain other parties (including Plaintiff) were denied licenses. In the matter, Plaintiff seeks declaratory relief, injunctive relief, relief from violation of procedural and substantive due process, violation of equal protection, unjust enrichment, judicial review of the entire matter, together with a Petition for Writ of Mandamus. The Plaintiff seeks damages in an unspecified amount. Thereafter, on April 20, 2020, YMY Ventures, LLC filed a Notice of Non-Participation and Request for Dismissal. 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. On December 12, 2022, the Superior Court granted the plaintiffs' motion to amend the stipulated judgment to add the Company, thereby making the Company liable, along with the defendants and Driven's former owner, Sal Villanueva, for the judgment of \$349,876.69, plus interest. The Company has appealed from the Superior Court order, and the matter is now pending in the California Court of Appeal for the Second District. The Company believes the Superior Court erred in amending the judgment to include the Company, given that the Company was only a shareholder in Driven, was uninvolved in the original settlement or the stipulated judgment, and Driven never merged into the Company. The Company has vigorously defended against the plaintiffs' claims in Superior Court and the Court of Appeal. It is not possible for us to provide an evaluation of the likelihood of an unfavorable outcome or an estimate of the amount of potential loss.

Sheila Contreras, et al. v. Budee, Inc.,

California Superior Court for the County of Alameda, Case No. 22CV017480. Plaintiffs filed a complaint on September 8, 2022 against Budee, Inc., Driven Deliveries, Inc. ("Driven"), and the Company for alleged violations of California wage-and-hour laws by Driven between May 2020 and August 2021. The Company, on behalf of itself alone, filed an answer denying the allegations on November 22, 2022. A non-jury trial is scheduled for October 25, 2024. Plaintiffs have taken no discovery and it is unclear whether they intend to fully pursue the action to trial. Given that the Company did not employ the plaintiffs, the Company lacks information regarding the amount of potential loss. The Company believes the action has no merit and intends to vigorously defend against the claims.

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

15. Subsequent events

451 Wallis , JVP3

On November 28, 2023, the Company executed an Asset Purchase Agreement in which the Company sold its assets in JV Production 3, LLC. The purchase price for all of its assets was \$250 thousand which included the cannabis retail license. At closing, the Company received \$250 thousand dollars less prepaid rent and expenses of \$100,000 and other miscellaneous fees.

Opco P1, 42nd street

On December 20, 2023, the Company executed an Asset Purchase Agreement in which the Company sold its assets in Opco Production 1, LLC. The purchase price for all of its assets was \$500 thousand which included both a cannabis production and processing license. Regulatory approval is pending and should close May 2024. At closing, the Company will have a net liquidity event.

Artifact, Chambers

On February 9, 2024, the Company executed on an Asset Purchase Agreement in which the Company sold its assets in JV Wholesale, LLC and JV Extraction, LLC, formerly known as Artifact. The purchase price for all of its assets was \$200 thousand which included the cannabis licenses. Regulatory approval is pending and should close May 2024. At closing, the Company will have a net liquidity event.

JVR4

On May 22, 2024, the Company executed on an Asset Purchase Agreement in which the Company sold its assets in JV Retail 4, LLC. The purchase price for all of its assets was \$425 thousand which included the cannabis licenses. Regulatory approval is pending and should close September 2024. At closing, the Company will have a net liquidity event.

KindCare / TJ's Provisions

On April 19, 2024, the Company executed on an Asset Purchase Agreement in which the Company sold its assets in KindCare, LLC. The purchase price for all of its assets was \$635 thousand which included the cannabis licenses. Regulatory approval is pending and should close September 2024. At closing, the Company will have a net liquidity event.

On December 1, 2023 Olympia Trust Company and Stem Holdings Inc. entered into a supplemental indenture amending the conversion price, to be \$1.00 (effected for the 1 for 100 reverse stock split), and all of the outstanding principal and accrued interest in the amount of \$2.6 million was converted to 2,642,426 Common shares at the new conversion price.

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

None

ITEM 9A. CONTROLS AND PROCEDURES.

(a) *Disclosure Controls and Procedures*

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

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 ("Exchange Act"), the Company's management, including the Company's Chief Executive Officer ("CEO") (the Company's principal executive officer) and Chief Financial Officer ("CFO") (the Company's principal financial and accounting officer), has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2023 to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The principal basis for this conclusion is the lack of segregation of duties within our financial function and the lack of an operating Audit Committee.

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

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

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

We carried out an assessment, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our internal controls over financial reporting, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of September 30, 2023. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)*. Based on that assessment and on those criteria, our CEO and CFO concluded that our internal control over financial reporting was not effective as of September 30, 2023. The principal basis for this conclusion is (i) failure to engage sufficient resources regarding our accounting and reporting obligations during our startup and (ii) failure to fully document our internal control policies and procedures.

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

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.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

Name	Age	Position with the Company
Matthew Cohen	65	President, Chief Executive Officer, Chief Financial Officer and Director
Roger Rai	53	Director
Robert L. B. Diener	75	Director

Matthew J. Cohen (65)

Matthew Cohen co-founded Stem Holdings, Inc. in 2016 and has been an independent consultant to the Company for the last five years. On March 30, 2022, Mr. Cohen was appointed Chief Executive Officer, Chief Financial Officer and a director of the Company; all titles of which he currently serves. Mr. Cohen has over 38 years of experience serving in corporate leadership roles, investing capital, structuring, and funding public/private partnerships, and providing strategic advisory services to companies throughout the U.S., Europe, Asia and Latin America. Specifically, Mr. Cohen has held the titles of Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Recovery Officer, President, Vice President, and Secretary and has extensive experience in business combinations and valuations, mergers and acquisitions, reverse mergers, revenue recognition, equity-based compensation, initial public offerings, secondary offerings, debt offerings and REIT compliance. He is also knowledgeable regarding the requirements of the Sarbanes-Oxley Act of 2002, including internal controls and Section 404 thereof, as well as the significant issues facing SEC registrants. In addition to being a senior executive of other publicly traded companies, he served on many publicly traded company boards and as Chairman of the Audit Committee for several companies. His experience spans a variety of industries including diagnostic services, aerospace, benefits and services company, consumer retail, biotech and he previously worked in the Investment Banking Division at Oppenheimer & Co. as an Analyst. Mr. Cohen has a B.B.A. degree in Accounting from New Paltz State University, New York (1980) and in that same year, was the recipient of the school's annual scholar athlete award. He is a member of the American Institute of Certified Public Accountants (AICPA).

Rajiv “Roger” Rai (53)

Mr. Rai was appointed a director of the Company on March 4, 2022, having previously served as a director of the Company from May 2018 to February 2019. In his capacity as Special Advisor to the Chairman at Rogers Communications, Roger Rai advises Edward Rogers, who is the representative controlling shareholder of Rogers Communications (TSX:RCI.b), on business development, revenue development, partnership development, talent development and sports. Previously, Roger was the Managing Director for E.S. Rogers Enterprises from 2004 to 2018. In that capacity, he gained extensive experience in strategic management services, including business processes assessment and advisory services.

Roger is currently the President of R3 Concepts Inc., a consulting and investments company located in Toronto, Canada. Since 2012, he has also served as an advisor to Chobani, Inc., a retail food services company.

From 2010 to 2016, Roger was the Vice President, Business Development, Keek Inc. (TSXV:KEK). In this capacity, Roger was responsible for all new business and partnership development at the Company.

Before Keek Inc., Roger was the Director of Development at C.O.R.E. Feature Animation, a Company that produced the children's animation movie “The Wild.” He was the Founder and VP, Business Development of Fastvibe Inc., a web-streaming equipment and services company located in Toronto. Roger also held various managerial positions at Rogers Cable Systems and Rogers Wireless, one Canada's largest Communications companies.

Roger sits on the Board of Directors for CONSTANTINE Enterprises Inc., a privately held real estate Company based in Toronto, with operations in Canada and the Bahamas.

He is one of the founders and on the Board of Directors for the ONEXONE Foundation, a charitable organization focused on global child welfare.

Roger holds a Bachelor of Arts from the University of Western Ontario and lives in Toronto.

Robert L. B. Diener (75)

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

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

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

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

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

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

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

- had any bankruptcy petition filed by or against any business of which he was a general partner or executive officer, either at the time of the bankruptcy or within two years prior to that time;

- been convicted in a criminal proceeding and is not subject to a pending criminal proceeding;
- been subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, futures, commodities or banking activities;
- or been found by a court of competent jurisdiction (in a civil action), the Securities Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

Compensation Committee Interlocks and Insider Participation

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

Family Relationships

None.

Committees of the Board of Directors

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

The Board of Directors has approved charters for each committee.

Audit Committee

The Audit Committee is currently composed of Robert L. B. Diener, Chairman, and Roger Rai together with Matthew Cohen. Mr. Diener and Mr. Rai are independent directors, and each considered financially literate.

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

- Monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting and legal compliance.
- Monitor the independence and performance of the Company's independent auditors and the Company's accounting personnel.
- Provide an avenue of communication among the independent auditors, management, the Company's accounting personnel, and the Board.
- Appoint and provide oversight for the independent auditors engaged to perform the audit of the financial statements.

- Discuss the scope of the independent auditors' examination.
- Review the financial statements and the independent auditors' report.
- Review areas of potential significant financial risk to the Company.
- Monitor compliance with legal and regulatory requirements.
- Solicit recommendations from the independent auditors regarding internal controls and other matters.
- Make recommendations to the Board.
- Resolve any disagreements between management and the auditors regarding financial reporting.
- Prepare the report required by Item 407(d) of Regulation S-K, as required by the rules of the Securities and Exchange Commission (the "SEC").
- Perform other related tasks as requested by the Board.

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

Compensation Committee

The Compensation Committee is currently composed of Roger Rai, Chairperson, and Robert L. B. Diener together with Matthew Cohen. Messrs. Rai and Diener are independent directors.

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

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

- Review the competitiveness of the Company's executive compensation programs to ensure (a) the attraction and retention of corporate officers, (b) the motivation of corporate officers to achieve the Company's business objectives, and (c) the alignment of the interests of key leadership with the long-term interests of the Company's stockholders.
- Review and determine the annual salary, bonus, stock options, other equity-based incentives, and other benefits, direct and indirect, of the Company's executive officers, including development of an appropriate balance between short-term pay and long-term incentives while focusing on long-term stockholder interests.
- Determine salary increases and bonus grants for the Chairman of the Board, the CEO, the President, and all other executive officers of the Company.
- Review and approve corporate goals and objectives for purposes of bonuses and long-term incentive plans.
- Review and approve benefit plans, including equity incentive plans, and approval of individual grants and awards.

- Review and approve employment or other agreements relating to compensation for the Chairman of the Board, the CEO, the President, and the other executive officers of the Company.
- Review and discuss with management the Company's CD&A and recommend to the Board that the CD&A be included in the Post-Effective Amendment #1 to Form S-1 and/or proxy statement in accordance with applicable SEC rules.
- If required by SEC rules, provide a Compensation Committee Report on executive compensation to be included in the Company's annual proxy statement in accordance with applicable SEC rules.
- Perform an annual evaluation of the performance of the Chairman of the Board, the CEO, the President, and the other executive officers.
- Perform an annual review of non-employee director compensation programs and recommend changes thereto to the Board when appropriate.
- Plan for executive development and succession.
- Review and approve all equity-based compensation plans and amendments thereto, subject to any stockholder approval under the listing standards of NASDAQ.
- Recommend an appropriate method by which stockholder concerns about compensation may be communicated by stockholders to the Committee and, as the Committee deems appropriate, to respond to such stockholder concerns.
- Perform such duties and responsibilities as may be assigned by the Board to the Committee under the terms of any executive compensation plan, incentive compensation plan or equity-based plan.
- Review risks related to the Company's compensation policies and practices and review and discuss, at least annually, the relationship between the Company's risk management policies and practices, corporate strategy and compensation policies and practices.

Nominating/Corporate Governance Committee

The Nominating/Corporate Governance Committee is currently composed of Robert L. B. Diener, Chairman, and Roger Rai together with Matthew Cohen. Mr. Diener and Mr. Rai are independent directors.

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

- Evaluate, in consultation with the Chairman of the Board and Chief Executive Officer ("CEO"), the current Composition, size, role and functions of the Board and its committees to oversee successfully the business and affairs of the Company in a manner consistent with the Company's Corporate Governance Guidelines and make recommendations to the Board for approval.
- Determine, in consultation with the Chairman of the Board and CEO, director selection criteria consistent with the Company's Corporate Governance Guidelines and conduct searches for prospective directors whose skills and attributes reflect these criteria.
- Assist in identifying, interviewing, and recruiting candidates for the Board.

- Evaluate, in consultation with the Chairman of the Board and CEO, nominees, including nominees nominated by stockholders in accordance with the provisions of the Company's Bylaws, and recommend nominees for election to the Board or to fill vacancies on the Board.
- Before recommending an incumbent, replacement, or additional director, review his or her qualifications, including capability, availability to serve, conflicts of interest, and other relevant factors.
- Evaluate, in consultation with the Chairman of the Board and CEO and make recommendations to the Board concerning the appointment of directors to Board committees and the selection of the Chairman of the Board and the Board committee chairs consistent with the Company's Corporate Governance Guidelines.
- Determine the methods and execution of the annual evaluations of the Board's and each Board committee's effectiveness and support the annual performance evaluation process.
- Evaluate and make recommendations to the Board regarding director retirements, director re-nominations and directors' changes in circumstances in accordance with the Company's Corporate Governance Guidelines.
- Review and make recommendations to the Board regarding policies relating to directors' compensation, consistent with the Company's Corporate Governance Guidelines.
- As set forth herein, monitor compliance with, and at least annually evaluate and make recommendations to the Board regarding, the Company's Corporate Governance Guidelines and overall corporate governance of the Company.
- Assist the Board and the Company's officers in ensuring compliance with an implementation of the Company's Corporate Governance Guidelines.
- Develop and implement continuing education programs for all directors, including orientation and training programs for new directors.
- Annually evaluate and make recommendations to the Board regarding the Committee's performance and adequacy of this Charter.
- Review the Code of Ethics periodically and propose changes thereto to the Board, if appropriate.
- Review requests from outside the Committee for any waiver or amendment of the Company's Code of Business Conduct and Ethics and recommend to the Board whether a particular waiver should be granted or whether a particular amendment should be adopted.
- Oversee Committee membership and qualifications and the performance of members of the Board.
- Review and recommend changes in (i) the structure and operations of Board Committees, and (ii) Committee reporting to the Board.
- Make recommendations annually to the Board as to the independence of directors under the Corporate Governance Guidelines.
- Review and make recommendations to the Board regarding the position the Company should take with respect to any proposals submitted by stockholders for approval at any annual or special meetings of stockholders.
- Regularly report on Committee activities and recommendations to the Board.
- Perform any other activities consistent with this Charter, the Company's Certificate of Incorporation and Bylaws, as amended from time to time, the NASDAQ company guide, and any governing law, as the Board considers appropriate and delegates to the Committee.

Code of Business Conduct and Ethics

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

Legal Proceedings

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

Officers and Directors Indemnification

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

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

ITEM 11. EXECUTIVE COMPENSATION.

The following is a summary of the compensation we paid for each of the last two years ended September 30, 2023 and 2022, respectively (i) to the persons who acted as our principal executive officer during our fiscal year ended September 30, 2023 and (ii) to the person who acted as our next most highly compensated executive officer other than our principal executive officer who was serving as an executive officer as of the end of our last fiscal year.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings (\$)	All other Compensation (\$)	Total (\$)
Matthew J. Cohen CEO	2023	\$250,000	\$ -	\$100,000	\$ -	\$ -	\$ -	\$ -	\$350,000
	2022	\$187,500	\$ -	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$237,500
Roger Rai Director	2023	\$ -	\$ -	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ 50,000
	2022	\$ 1,250	\$ -	\$ 3,250	\$ -	\$ -	\$ -	\$ -	\$ 4,500
Robert Diener Director	2023	\$ 30,000	\$ -	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ 80,000
	2022	\$ 1,250	\$ -	\$ 3,250	\$ -	\$ -	\$ -	\$ 117,500	\$122,000

OUTSTANDING EQUITY AWARDS

Grants of Plan-Based Awards

Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned	Options (#)	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
None		-	-	-	-	-	-

Equity Compensation Plan Information

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

(1) As of September 30, 2023

Warrants Issued to Management

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

Employment Agreements

Matthew J. Cohen—On March 30, 2022, the Company entered into an Employment Agreement for an initial term of one year, subject to automatic renewals for additional one-year periods until terminated, with the remaining term at all times being not less than one year. The Employment Agreement provides salary at the rate of \$250,000 per year. The salary shall be subject to annual review not later than March 15th of each year by the Board or the Compensation Committee of the Board (the “**Compensation Committee**”), but shall in no event be decreased from its then existing level without the mutual agreement of the parties. Mr. Cohen also received a restricted stock grant of 1,000,000 shares of the Company’s common stock. Additionally, Mr. Cohen shall participate in an annual cash incentive compensation plan being eligible to earn an annual bonus for each full calendar year completed. The target Annual Bonus will be twenty percent (20%) of the Base Salary and may earn up to thirty percent (30%) of Base Salary, in each case based on Base Salary in effect on January 1st of the applicable performance period. The actual Annual Bonus payable to the Executive with respect to a performance period will be determined by the Compensation Committee based on achieving performance goals and objectives for such calendar year as reasonably determined by the Compensation Committee. The Annual Bonus shall be paid as soon as administratively practicable after the end of the performance period, but in no event later than the March 15th immediately following such period; provided, that the Mr. Cohen remains employed by the Company through the last day of the annual calendar year performance period to be eligible to receive bonus.

Compensation of Directors

Independent members of the Board of Directors receive accrued compensation of \$2,500 per month together periodic stock option grants (see Grants of Plan-Based Awards, above). At this time, there is no other board of director compensation plan in place.

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

The following table sets forth certain information with respect to the beneficial ownership of our voting securities by (i) any person or group owning more than 5% of any class of voting securities, (ii) each director, (iii) our chief executive officer and president and (iv) all executive officers and directors as a group as of December 30, 2022. Unless noted, the address for the following beneficial owners and management is 2201 NW Corporate Blvd., Suite 205, Boca Raton, FL 33431.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner (1)	Percent of Class
Common Stock	Matthew Cohen (2)	1,136	46.8%
Common Stock	Roger Rai (3)	749	31%
Common Stock	Robert Diener (4)	539	22%
Common Stock	All executive officers and directors as a group (3 persons)	2,424	100%

(1) In determining beneficial ownership of our Common Stock, the number of shares shown includes shares which the beneficial owner may acquire upon exercise of debentures, warrants and options which may be acquired within 60 days. In determining the percent of Common Stock owned by a person or entity on December 5, 2022, (a) the numerator is the number of shares of the class beneficially owned by such person or entity, including shares which the beneficial ownership may acquire within 60 days of exercise of debentures, warrants and options; and (b) the denominator is the sum of (i) the total shares of that class outstanding on December 5, 2022 (2,276,933 shares of Common Stock) and (ii) the total number of shares that the beneficial owner may acquire upon exercise of the debentures, warrants and options. Unless otherwise stated, each beneficial owner has sole power to vote and dispose of its shares. Shares are represented post-split which was effectuated in December 2023.

(2) Comprises 100,000 shares issued in connection with Employment Agreement

(3) Comprises 4,166 shares purchased, and 70,782 shares issued for services as a director of the Company

(4) Comprises shares issued for services as a director of the Company

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***Related Party Transactions***

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

Director Independence

As of December 30, 2022, of our three (3) directors, Robert Diener and Roger Rai are considered “independent” in accordance with Rule 4200(a)(15) of the NASDAQ Marketplace Rules. The remaining director is not considered “independent”.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**Audit Fees**

The aggregate fees billed by our principal accountant for the audit of our annual financial statements, review of financial statements included in the quarterly reports and other fees that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal years ended September 30, 2023, and September 30, 2022, respectively, were approximately \$227,000 and \$240,000.

Tax Fees

The aggregate fees billed for professional services rendered by our principal accountant for tax compliance, tax advice and tax planning for the fiscal years ended September 30, 2023, and 2022, respectively, were approximately \$57,000 and \$118,000.

All Other Fees

The other aggregate fees billed for professional services rendered by our principal accountant for work related to registration statements, the Canadian prospectus, and consulting work related to the Employee Retention Tax Credit for the fiscal years ended September 30, 2023, and 2022, respectively were \$0.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this 10-K:

1. FINANCIAL STATEMENTS

The following documents are filed in Part II, Item 8 of this annual report on Form 10-K:

- Report of L J Soldering Associates, LLC, Independent Registered Certified Public Accounting Firm
- Consolidated Balance Sheets as of September 30, 2023 and 2022 (audited)
- Consolidated Statements of Operations for the year ended September 30, 2023 and September 30, 2022 (audited)
- Statements of Stockholders' Equity for the years ended September 30, 2023 and September 30, 2022 (audited)
- Statement of Cash Flows for the years ended September 30, 2023 and September 30, 2022 (audited)
- Notes to Financial Statements (audited)

2. FINANCIAL STATEMENT SCHEDULES

All financial statement schedules have been omitted as they are not required, not applicable, or the required information is otherwise included.

3. EXHIBITS

The exhibits listed below are filed as part of or incorporated by reference in this report.

Exhibit No.	Identification of Exhibit
31.1	<u>Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Stem Holdings, Inc.
(Registrant)

By: /s/ Matthew J. Cohen

Matthew J. Cohen
Chief Executive Officer and Director
(Principal Executive Officer)

Date May 24, 2024

By: /s/ Matthew J. Cohen

Matthew J. Cohen
Chief Financial Officer and Director
(Principal Financial and Accounting Officer)

Date May 24, 2024

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following person on behalf of the registrant and in the capacity and on the date indicated.

By: /s/ Matthew J. Cohen

Matthew J. Cohen
Chief Executive Officer and Director
(Principal Executive Officer)

Date May 24, 2024

By: /s/ Matthew J. Cohen

Matthew J. Cohen
Chief Financial Officer and Director
(Principal Financial and Accounting Officer)

Date May 24, 2024

By: /s/ Roger Rai

Roger Rai
Director

Date May 24, 2024

By: /s/ Robert L. B. Diener

Robert L. B. Diener
Director

Date May 24, 2024

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

I, Matthew Cohen, certify that:

1. I have reviewed this Form 10-K for the period ended September 30, 2023 of Stem Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 24, 2024

/s/ Matthew J. Cohen

Matthew J. Cohen
Principal Executive Officer

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

I, Matthew Cohen, certify that:

1. I have reviewed this Form 10-K for the period ended September 30, 2023 of Stem Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 24, 2024

/s/ Matthew J. Cohen

Matthew J. Cohen
Principal Financial Officer

**CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Stem Holdings, Inc., a Nevada corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The annual report on Form 10-K for the period ended September 30, 2023 (the “Form 10-K”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 24, 2024

/s/ Matthew J. Cohen

Matthew J. Cohen
Principal Executive Officer

A signed original of this written statement required by Section 906 has been provided to STEM HOLDINGS, INC. and will be retained by STEM HOLDINGS, INC. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATIONS PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Stem Holdings, Inc., a Nevada corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The annual report on Form 10-K for the period ended September 30, 2023 (the “Form 10-K”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 24, 2024

/s/ Matthew J. Cohen

Matthew J. Cohen

Principal Financial and Accounting Officer

A signed original of this written statement required by Section 906 has been provided to STEM HOLDINGS, INC. and will be retained by STEM HOLDINGS, INC. and furnished to the Securities and Exchange Commission or its staff upon request.
