

## FORM 7

### MONTHLY PROGRESS REPORT

Name of Listed Issuer: Stem Holdings, Inc.

Trading Symbol: STEM

Number of Outstanding Listed Securities: 230,873,508

Date: October 25, 2021 Period: September 2021

This Monthly Progress Report must be posted before the opening of trading on the fifth trading day of each month. This report is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by Exchange Policies. If material information became known and was reported during the preceding month to which this report relates, this report should refer to the material information, the news release date and the posting date on the Exchange website.

This report is intended to keep investors and the market informed of the Issuer's ongoing business and management activities that occurred during the preceding month. Do not discuss goals or future plans unless they have crystallized to the point that they are "material information" as defined in the Policies. The discussion in this report must be factual, balanced and non-promotional.

#### **General Instructions**

- (a) Prepare this Monthly Progress Report using the format set out below. The sequence of questions must not be altered, nor should questions be omitted or left unanswered. The answers to the items must be in narrative form. State when the answer to any item is negative or not applicable to the Issuer. The title to each item must precede the answer.
- (b) The term "Issuer" includes the Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

#### **Report on Business**

1. Provide a general overview and discussion of the development of the Issuer's business and operations over the previous month. Where the Issuer was inactive disclose this fact.

## Recent Highlights:

The Company acquired Artifact Extracts (“**Artifact**”), a premier cannabis extraction company based in Oregon known for its award-winning concentrates, as well as two dispensaries. The national market for concentrates grew 40% last year\* as new and current cannabis consumers turn to this product category.

## Strategic Highlights:

With the acquisition of Artifact, Driven By Stem will be well positioned to capture additional market share, expand its presence in the fast-growing concentrates segment, and maximize value for all its shareholders.

- Increases footprint of fully-owned dispensaries on the West Coast to six locations.
- Expand Oregon presence with a dispensary in Salem, to be re-named TJ’s on Broadway, and a dispensary in Eugene, to be re-named TJ’s on 7<sup>th</sup>, flanking its two existing dispensaries in the city. Cannabis sales in Salem/Marion County were \$73.5 million in 2020 growing 32.4%\*\* as compared to the prior year.
- Immediately launch the Budee™ proprietary delivery platform in Salem, extending its consumer reach with expedited service, with service expansion to Eugene in October.
- Supply consistent, high-quality biomass for Artifact from its cultivation operations for Stem’s TJ’s Gardens™ and Yerba Buena™ brands in Oregon, with accretive margins.
- Integrate Artifact’s premier line of concentrates including budder, badder, shatter, crumble, rosin, THC A crystals, and other popular forms into Stem’s family of brands and product lines.
- Expands the Company’s distribution footprint by cross-selling into dispensaries not yet supplied with the full portfolio of Stem’s brands, as well as including Artifact’s presence in all TJ’s dispensaries.
- Strengthen Stem’s experienced management team with the integration of Artifact’s skilled R&D leadership.

“Artifact is recognized for the potency and purity of its high-quality line of concentrates that have driven its growth in the Oregon market,” stated Adam Berk, CEO of Stem. “As

a result of this strategic acquisition, we will benefit from the expertise and broad capabilities that the Artifact team will provide to our existing extraction team that has specialized in tinctures and edibles, as well as in retail operations. We look forward to integrating Artifact's operations, dispensaries, and leadership into the Stem family, and quickly expanding product distribution to our full retail customer base for rapid growth."

Jesse Johnson, the lead extractor at Artifact, commented, "We have worked with Stem in the past and trust the quality of the cannabis grown in its facilities. The synergies of this acquisition will build value for the company as we combine our expertise to launch cutting-edge products meeting the needs of this evolving market, as well as increasing their market penetration with an expanded retail and delivery platform," he concluded. The transaction closed September 17<sup>th</sup>, 2021 with all OLCC approvals granted. In connection with such transaction, Stem issued 8,209,178 shares of common stock of Stem at a deemed aggregate value of US\$2,925,000 at a 24% premium to Stem's closing share price of common stock.

The Company received a non-storefront license to open a distribution hub in Mendota, located in the county of Fresno, enabling it to provide better service to consumers with its Budee™ e-commerce platform in four key counties in Northern California, home to 2.3 million residents\*.

This expansion is expected to drive topline sales with greater efficiency, as the Company anticipates savings of up to \$1 million in operating expenses including, but not limited to, gross receipt taxes over the next eighteen months. The Mendota facility will have a fixed tax rate that is 3% lower than the Company's Oakland facility, representing approximately 25% of the total savings afforded by this facility.

In October 2021, the Company plans for the Mendota hub to become operational through a new 2,000 square foot facility, which will be dedicated to delivery service in 60 minutes or less. The city of Fresno is planning to license up to 21 retail dispensaries\*\*, the first since legalization, by the end of this year. Budee maintains its unique position as a legal delivery service already reaching 92% of California's population and is poised to service the Fresno market.

"The new Fresno distribution hub for non-storefront retail sales is the first of several planned initiatives to enhance revenue and reduce SG&A while improving service and variety for our valued Budee customers," stated Adam Berk, Chief Executive Officer of Stem. "With cannabis sales on the rise in the region, our high-quality product assortment includes best-selling cannabis brands across all product segments available through Budee's convenient delivery service and is a driver of market share gains."

Continued Mr. Berk, “In addition to the newly added distribution hub, our three existing distribution hubs, as well as a medical cannabis dispensary, provide widespread delivery service to the significant population throughout California. An additional benefit of our Budee operating model includes the unique ability to market our well-known brands of products in contiguous states with our partners of leading cannabis brands directly to consumers, removing extraneous costs. Overall, the Company is well-positioned as a cannabis operations leader in California to build shareholder value. We remain focused on the operational improvements required to become the leading market share player in direct-to-consumer delivery throughout California, and we will continue to drive our expansion in the Western U.S.”

2. Provide a general overview and discussion of the activities of management.

**Management is focused on expansion initiatives to support the acquisition and development of additional assets in the legal medical and recreational cannabis markets.**

3. Describe and provide details of any new products or services developed or offered. For resource companies, provide details of new drilling, exploration or production programs and acquisitions of any new properties and attach any mineral or oil and gas or other reports required under Ontario securities law.

**As the Issuer identifies additional opportunities, it will consider whether such opportunities meet its investment criteria and will either redeploy investment dollars into future projects or seek to raise additional capital through equity or debt financing.**

4. Describe and provide details of any products or services that were discontinued. For resource companies, provide details of any drilling, exploration or production programs that have been amended or abandoned.

**Not applicable.**

5. Describe any new business relationships entered into between the Issuer, the Issuer’s affiliates or third parties including contracts to supply products or services, joint venture agreements and licensing agreements etc. State whether the relationship is with a Related Person of the Issuer and provide details of the relationship.

**Not applicable**

6. Describe the expiry or termination of any contracts or agreements between the Issuer, the Issuer’s affiliates or third parties or cancellation of any financing arrangements that have been previously announced.

**Not applicable.**

7. Describe any acquisitions by the Issuer or dispositions of the Issuer’s assets that occurred during the preceding month. Provide details of the nature of the assets acquired or disposed of and provide details of the consideration paid or payable together with a schedule of payments if applicable, and of any valuation. State how the consideration was determined and whether the acquisition was from or the disposition was to a Related Person of the Issuer and provide details of the relationship.

**Not applicable.**

8. Describe the acquisition of new customers or loss of customers.

**Not applicable.**

9. Describe any new developments or effects on intangible products such as brand names, circulation lists, copyrights, franchises, licenses, patents, software, subscription lists and trademarks.

**See above.**

10. Report on any employee hiring’s, terminations or lay-offs with details of anticipated length of lay-offs.

**Not applicable.**

11. Report on any labour disputes and resolutions of those disputes if applicable.

**Not applicable.**

12. Describe and provide details of legal proceedings to which the Issuer became a party, including the name of the court or agency, the date instituted, the principal parties to the proceedings, the nature of the claim, the amount claimed, if any, if the proceedings are being contested, and the present status of the proceedings.

**Nothing material.**

13. Provide details of any indebtedness incurred or repaid by the Issuer together with the terms of such indebtedness.

**N/A**

14. Provide details of any securities issued and options or warrants granted.

<b>Security</b>	<b>Number Issued</b>	<b>Details of Issuance</b>	
Common Stock	872,000	Services	

15. Provide details of any loans to or by Related Persons.

**Not applicable.**

16. Provide details of any changes in directors, officers, or committee members.

**Not applicable.**

17. Discuss any trends which are likely to impact the Issuer including trends in the Issuer's market(s) or political/regulatory trends.

**The most significant trends and uncertainties which management expects could impact its business and financial condition are (i) the changing legal and regulatory regime which regulates the production and sale of cannabis and cannabis related product; (ii) the ability of companies who may receive funds from the sale of cannabis and cannabis related products to adequately track and legally transfer such funds; and (iii) the ability of companies to raise adequate capital to carry out their business objectives.**

#### **Legal and Regulatory Trends**

**The Company's flagship investments are in Oregon and currently management expects the legal and regulatory regimes in the United States (on a federal level) and Canada to be the most relevant to its business.**

#### **United States**

**In the United States, thirty-three states and Washington D.C. have legalized medical marijuana, while ten states and Washington, D.C. have also legalized recreational marijuana. Although cannabis currently remains a Schedule I drug under federal law, the U.S. Department of Justice issued a memorandum, known as the "Cole Memorandum", on August 29, 2013 to the U.S. Attorneys' offices (federal prosecutors) directing that individuals and businesses that rigorously comply with state regulatory provisions in states that have strictly-regulated legalized medical or recreational cannabis programs should not be a prosecutorial priority for violations of federal law. This federal policy was reinforced by passage of a 2015 federal budget bill amendment (passed in 2014) known as the Rohrabacher-Farr Amendment that prohibits the use of federal funds to interfere in the implementation of state medical marijuana laws. This bill targets Department of Justice funding, which encompasses the Drug Enforcement Agency and Offices of the United States Attorneys. This bill shows the development of bi-partisan support in the U.S. Congress for legalizing the use of cannabis.**

**On January 4, 2018, the U.S. Department of Justice rescinded the Cole Memorandum. Given that the Cole Memorandum was never legally binding, the U.S. Department of Justice continues to have discretion to enforce federal drug laws.**

**Under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or the sale of any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other**

financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Treasury Department issued a memorandum in February of 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal law. Under these guidelines, financial institutions must submit a “suspicious activity report” (SAR) as required by federal money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution’s belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated. In the U.S., a bill has been tabled in Congress to grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business follows state law. This bill has not been passed and there can be no assurance with that it will be passed in its current form or at all. In both Canada and the United States, transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape.

Political and regulatory risks also exist due to the presidential administration of Donald Trump and his appointment of Sen. Jeff Sessions to the post of Attorney General. President Trump’s positions regarding marijuana are difficult to discern; however, AG Sessions has been a consistent opponent of marijuana legalization efforts throughout his political career.

#### **Joyce Amendment**

On May 17, 2018 the U.S. House of Representatives Appropriations Committee approved the inclusion of the Rohrabacher-Blumenauer Amendment (previously, the Rohrabacher Farr Amendment), which adds a provision to prohibit the U.S. Department of Justice from using funding to prevent states from implementing medical marijuana laws through the end of fiscal year 2019.

## Certificate of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.
2. As of the date hereof there were no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All the information in this Form 7 Monthly Progress Report is true.

Dated: October 25, 2021  
Name of Director or Senior Officer

Adam Berk

(signed) "Adam Berk"  
Signature  
Chief Executive Officer  
Official Capacity

<b>Issuer Details</b>		For Month	Date of Report
Name of Issuer		End	YY/MM/DD
Stem Holdings, Inc		September	21/10/25
		2021	
Issuer Address			
2201 NW Corporate Blvd Suite 205 Boca Raton, Fl. 33431			
City/Province/Postal Code		Issuer Fax No.	Issuer Telephone No.
Boca Raton, Fl. 33431		N/A	(561) 948-5410
Contact Name		Contact Position	Contact Telephone No.
Adam Berk		CEO	561-948-5410
Contact Email Address		Web Site Address	
adam@drivenbystem.com		Stemholdings.com	