

GROW CONDOS, INC.
Form 10-K
April 24, 2018

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: June 30, 2017

or

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

For the transition period from:

Commission File Number: 000-53548

GROW CONDOS, INC.

(Exact name of registrant as specified in its charter)

Nevada

86-0970023

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

722 W. Dutton Road

Eagle Point, OR 97524

(Address of principal executive offices)

541-879-0504

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001

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 (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>
		Emerging growth company	<input checked="" type="radio"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes [] No [X]

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

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 quarter.

The market value of the voting and non-voting common stock held by non-affiliates totaled \$60,433,762 based upon a valuation of \$1.14 per share, that being the closing price on December 30, 2016 the last business day of the registrant's most recently completed second fiscal quarter.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Not applicable.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

As of April 18, 2018, the registrant had 88,926,057 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

See Part IV, Item 15.

PART I

FORWARD LOOKING STATEMENTS

In this Annual Report, references to "Grow Condos," the "Company," "we," "us," "our" and words of similar import) refer to Grow Condos, Inc., a Nevada corporation, the registrant and, when appropriate, its subsidiary.

Statements made in this Form 10-K which are not purely historical are forward-looking statements with respect to the goals, plan objectives, intentions, expectations, financial condition, results of operations, future performance and business of Grow Condos. Such forward-looking statements include those that are preceded by, followed by or that include the words "may", "would", "could", "should", "expects", "projects", "anticipates", "believes", "estimates", "plans", "intends", "targets" or similar expressions.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond our control) that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following, in addition to those contained in this Annual Report: general economic or industry conditions nationally and/or in the communities in which we conduct business; legislation or regulatory requirements, including environmental requirements; conditions of the securities markets; competition; our ability to raise capital; changes in accounting principles, policies or guidelines; financial or political instability; acts of war or terrorism; and other economic, competitive, governmental, regulatory and technical factors affecting our operations, products, services and prices.

Accordingly, results actually achieved may differ materially from expected results in these statements. Forward-looking statements speak only as of the date they are made. Grow Condos does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

ITEM 1. BUSINESS

Item 1. Description of Business

History

Grow Condos, Inc. (the "Company") was incorporated on October 22, 1999 as Calibus, in the State of Nevada. From its inception, the Company was a call center that contracted out as a customer contact center for a variety of business clients throughout the United States. Over time our main business became a third party verification service. After making a sale on the telephone, a company would send the call to a Company operator to confirm the order. This process protected both the customer and the company selling services from telephone sales fraud.

While continuing to operate as a call center, in 2008 we expanded our business plan to include the development of a social networking site called JabberMonkey (Jabbermonkey.com) and the development of a location based social networking application for smart phones called Fanatic Fans.

WCS Enterprises

Our wholly-owned subsidiary, WCS Enterprises, LLC ("WCS Enterprises") is an Oregon limited liability company which was formed on September 9, 2013 and was acquired by us in June 2014 in exchange for shares of our common stock. The acquisition of WCS Enterprises resulted in a change of control of the Company and at or shortly after the closing of such acquisition, the persons designated by WCS Enterprises became the officers and directors of the Company. As a result of our acquisition of WCS Enterprises in June 2014, we became engaged in the business of being areal estate purchaser, developer and manager of specific use industrial properties business.

WCS Enterprises Business Operations

Through WCS Enterprises, we are a real estate purchaser, developer and manager of specific use industrial properties providing "Condo" style turn-key grow facilities to support cannabis growers in the United States cannabis industry. We intend to own, lease, sell and manage multi-tenant properties so as to reduce the risk of ownership and reduce costs to the tenants and owners. We offer tenants the option to lease, lease to purchase or buy their condo warehouse space that is divided into comparable 1,500- 2,500 square foot condominium units. Each Condo unit will be uniquely designed and have all necessary resources as an optimum stand-alone grow facility. We believe that Cannabis farmers will pay an above market rate to lease or buy our condo grow facility. We will purchase and develop buildings that are divisible into separate units to attract multiple farmers and reduce the risk of single tenant leases. In addition to our "Condo" turn-key growing facilities we intend to provide marijuana grow consulting services and equipment and supplies as part of our turn-key offerings. We are aggressively out looking for our next property in the western area of the United States where medical cannabis has been legalized and where recreational cannabis has been or is in the process of legalization. On April 1, 2016 we closed escrow on our second project located in the Pioneer Business Park in Eugene, Oregon. The Company is not directly involved in the growing, distribution or sale of cannabis.

Smoke on the Water, Inc.

Smoke on the Water, Inc., was incorporated on October 21, 2016, in the State of Nevada and is a wholly owned subsidiary.

Smoke on the Water Business Operations

Smoke on the Water is designed to capitalize on the country's growing level of recreational marijuana acceptance. The company plans to engage in a roll up strategy for this highly-fragmented industry and provide turn-key solutions for Marijuana-friendly campgrounds and resorts. The company has strategized to initially develop the property through acquisition, subsequently rebranding the existing RV business to represent the Smoke on The Water brand. Upon project launch, the Company plans to provide fully functional vacationing solutions to campground operators and owners seeking to fill the growing demand for stress free and acceptable vacationing for the pro-personal choice and marijuana smoking community.

On March 7, 2017, Smoke on the Water, Inc. executed a Real Estate Purchase Agreement to acquire the Lake Selmac Resort located at 2700 Lakeshore Drive, Selma, Oregon.

Owned Properties

We have secured real estate in Eagle Point in Jackson County, Oregon representing our sole condominium operating location. The building is 15,000 square feet and zoned to meet the requirements for specific purpose industrial use and is divided into four 1,500 square foot condo style grow rooms which, is being leased to four tenants and one 7,500 square foot grow facility leased to one tenant, a related party.

Further we have acquired real estate located just 20 miles from Grants Pass, Oregon and 2.5 miles east of the Redwood Highway in Selma, Oregon known as the Lake Selmac Resort. The total property occupies approximately 5.85 acres, has 29 RV spaces (13 pull through spots), 2 cabins and a convenience store, boat dock, bath house and coin operated laundry facilities. The Resort facilities also include fishing, swimming, boating, and tent camping. This is our first cannabis friendly tourist destination. We also operate a full service country store.

We also own a parcel of land located within the Pioneer Business Park near Eugene OR, which is currently listed for sale.

Sales & Leasing

We develop, lease, own and provide investment sales opportunities for commercial industrial properties focused in the cannabis production arena. The company has relationships with tenants, brokers and investors across the

cannabis industry to leverage successful transactions for both lease-to-own option as well as investors looking to purchase facilities with qualified tenants providing positive cash-flow backed by commercial property.

Tourist Recreation and site rentals

During fiscal 2017 we acquired our first cannabis friendly tourist destination with the purchase of Lake Selmac Resort where we offer facilities including fishing, swimming, boating, RV parking, tent camping & cabin accommodation.

Supplies and Equipment

We intend in the future, to provide operators state-of-the art equipment and methodology to provide efficient implementation to assist clients to realize stabilized operations faster.

Financing

We intend in the future, to assist tenants with financing for space build-out as well as acquisition of commercial property.

Marketing

Our initial marketing will be aimed at attracting customers through networking with real estate agencies, agents, commercial brokers and consulting groups that are involved in the cannabis industry. We will target specific trade shows, conferences and seminars associated with cannabis growers. As our capital for marketing is very limited we are reviewing the cost of advertising on the radio or in print or running ads on certain cannabis industry online websites. Further during 2017 we commenced marketing of our Smoke on the Water brand. With our Lake Selmac resort property we provide fully functional vacationing solutions to campground operators and owners seeking to fill the growing demand for stress free and acceptable vacationing for the pro-personal choice and marijuana smoking community.

Employees

We currently have four employees two of whom are officers of the Company and one of whom is employed part time. Our employees are not represented by unions and we consider our relationship with our employees to be good.

Facilities

Our office is located at 722 W. Dutton Rd, Eagle Point, Oregon 97524 and is in the building that we own. We currently pay no rent. We believe this facility will be adequate for our needs for the next twelve months.

Competition

Commercial real estate:

The commercial real estate market is highly competitive. We believe finding properties that are zoned for the specific use of allowing cannabis growers may be limited as more competitors enter the market. Initially we will aggressively target states in the western US that legally allow for medical and recreational cannabis to be grown. We have identified several competitors that appear to have offerings similar to ours. They are Zoned Properties, Inc. (ZDPY), MJ Holdings, Inc. (MJNE), and Home Treasure Finders, Inc. (HMTF)

Zoned Properties, Inc. - Zoned Properties, Inc., a real estate investment firm, focuses on acquiring free standing buildings, land parcels, and greenhouses in order to have them re-zoned to be able to carry out aeroponics agricultural grow operations. It plans to operate primarily in Arizona, Illinois, Nevada, and Colorado.

MJ Holdings, Inc. – MJ Holdings, Inc. acquires and leases real estate to licensed marijuana operators, including but not limited to providing complete turnkey growing space and related facilities to licensed marijuana growers and dispensary owners. Additionally, MJ Holdings plans to explore ancillary opportunities in the regulated marijuana industry.

Home Treasure Finders, Inc. – Home Treasure Finders, Inc. is engaged in a real estate lead referral business in Colorado. It focuses on buying and selling properties; and leasing its real estate properties to cannabis growers for cannabis cultivation. The company also manages 55 rental units. Home Treasure Finders, Inc. was founded in 2008 and is based in Denver, Colorado. Advanced Cannabis Solutions, Inc. – Advanced Cannabis Solutions, Inc. a development stage company, focuses on providing real estate leasing services to the regulated cannabis industry in the United States. It plans to purchase real estate assets; and lease growing space and related facilities to licensed marijuana growers and dispensary owners for their operations. The company was founded in 2013 and is headquartered in Colorado Springs, Colorado.

Cannabis friendly resort properties:

There are currently 29 states in the U.S. that have legalized medical marijuana and 8 states in the U.S. that permit adult cannabis usage and have adopted laws which govern and permit recreational usage of cannabis on private property and by adults over the age of 21. Oregon, Washington and Colorado are three such states.

The market for cannabis friendly resort properties in those states with recreational cannabis usage laws is small but growing. Presently we have identified only a handful of locations which we believe are competitive to our business model. Management believes there is substantial room for expansion in this particular field of operation with roll up of privately held resort and campground locations in this burgeoning leisure property space:

(1) Wilderness Bud and Breakfast San Juan National Forest, Pagosa Springs, CO

This property offers a wide variety of wilderness 420 friendly camping experiences featuring *420 Happy Hour*, served daily and featuring a selection of the finest organic flowers, cannabis-infused edibles and extracts from the sunny southwest of Colorado. Tipis and tent sites are located on the banks of the Rio Blanco. Camp kitchen, stoves, BBQ, outhouse, solar shower and campfire area are located on the campgrounds.

(2) CanyonSide Campground, Fort Collins, CO

Family owned and operated campground located in the Poudre Canyon, along the Cache La Poudre River. Property has five furnished cabins, ten RV sites with hook-ups and large tenting area. Property is located between Fort Collins and Walden, Colorado.

Further there are various locations in Washington and Colorado which have been identified by The Travel Joint <http://thetraveljoint.com/cannabis-camping/> as being friendly to edibles as opposed to smoking cannabis, which have not been included in our competitive analysis.

Government Regulation

Currently, there are approximately twenty states plus the District of Columbia that have laws and/or regulations that recognize in one form or another legitimate medical uses for cannabis and consumer use of cannabis in connection with medical treatment. Fifteen other states are considering legislation to similar effect. As of the date of this writing, the policy and regulations of the Federal government and its agencies is that cannabis has no medical benefit and a range of activities including cultivation and use of cannabis for personal use is prohibited on the basis of federal law and may or may not be permitted on the basis of state law.

The Department of Justice governs the use of cannabis under the Controlled Substances Act (CSA). Schedule 21 of the U.S. Code includes five established schedules of controlled substances known as schedules I, II, III, IV, and V. The Department of Justice has mandated that schedules established by this section shall be updated and republished on a semi-annual basis during the two-year period beginning one year after October 27, 1970, and shall be updated

and republished on an annual basis thereafter. Schedule I includes cannabis in its listing. Substances included in Schedule I have the following characteristics:

- (A) The drug or other substance has a high potential for abuse;
- (B) The drug or other substance has no currently accepted medical use in treatment in the United States;
- (C) There is a lack of accepted safety for use of the drug or other substance under medical supervision.

On January 4, 2018 the office of the Attorney General published a memo regarding Marijuana Enforcement that rescinds Obama-era directives easing federal enforcement. While marijuana has always been illegal under federal law, as noted above, certain states have legalized adult usage under various local laws which govern substance usage and limits. In the January 8, 2018 memo, Jefferson B. Sessions, Attorney General has indicated enforcement decisions will be left up to the U.S. Attorney's in the 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."*

The Company does not believe this directive will have a substantive impact on its planned operations.

On April 13, 2018 it was announced that President Donald Trump had promised Senate Republican Cory Gardner that he will support congressional efforts to protect states that have legalized marijuana, defusing a months-long standoff between Sen. Cory Gardner and the administration over Justice Department nominees. Trump told Gardner that despite the DOJ memo of January 4, 2018, the marijuana industry in Colorado will not be targeted. A bill has not been finalized, but discussion has commenced to find legislation that would, in effect, make clear the federal government cannot interfere with states that have voted to legalize marijuana.⁽¹⁾

⁽¹⁾<https://www.washingtonpost.com/politics/trump-gardner-strike-deal-on-legalized-marijuana-ending-standoff-over-justice-no>

We do not produce, market, or sell cannabis. We are limiting ourselves to states where the state law allows for the production of cannabis. Beyond the state law allowing for cannabis production our construction must comply with all state and local building requirements as well as zoning requirements. We work closely with the local authorities regarding zoning and work closely with the local building inspectors to comply in every way with building regulations.

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2: PROPERTIES

(1) We own a building at 722 W. Dutton Road, Eagle Point, OR 97524 representing our first operating location for WCS Enterprises. The building is 15,000 square feet and zoned to meet the requirements for specific purpose industrial use and is divided into four 1,500 square feet condo style grow rooms which, is being leased to four tenants and one 7,500 square feet grow facility leased, for which the rent has yet begun, to one tenant that is a related party.

We maintain our corporate offices in the building. The Company occupies one 1,500 sq. ft. unit to use as an office space.

(2) In April 2016, the Company purchased a parcel of land near Eugene, Oregon within the Pioneer Business Park from a private seller in the amount of \$326,629 plus closing costs. The property is on 2.65 acres located in the Pioneer Business Park. The original plans were for building 33-1500 square foot units or approximately 50,000 square feet of warehouse condominiums on the site.

In late 2017, the Company engaged a broker and listed the parcel of land for sale.

(3) In March 2017, the Company acquired a RV and campground park in Selma, Oregon. The property is located just 20 miles of Grants Pass, Oregon and 2.5 miles east of the Redwood Highway in Selma, Oregon and is known as the Lake Selmac Resort. The Resort facilities include fishing, swimming, boating, and in addition to RV parking, has tent camping & cabin locations established for accommodation.

ITEM 3: LEGAL PROCEEDINGS

The Company is not the subject of any pending legal proceedings and, to the knowledge of management, no proceedings are presently contemplated.

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

Market Information

Our shares of common stock are quoted by the OTC Markets Group Inc. of the Financial Industry Regulatory Authority, Inc. ("FINRA") under the symbol "GRWC". Set forth below are the high and low closing bid prices for our

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common stock for each quarter of the last two fiscal years ended June 30, 2017 and 2016. These bid prices were obtained from OTC MarketsGroup Inc. All prices listed herein reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions.

Period	High	Low
July 1, 2015 through September 30, 2015	\$ 2.40	\$ 1.00
October 1, 2015– December 31, 2015	\$ 2.20	\$ 0.62
January 1, 2016 through March 31, 2016	\$ 0.62	\$ 0.22
April 1, 2016 through June 30, 2016	\$ 2.30	\$ 0.55
July 1, 2016 through September 30, 2016	\$ 1.55	\$ 0.70
October 1, 2016 through December 31, 2016	\$ 1.92	\$ 0.61
January 1, 2017 through March 31, 2017	\$ 1.35	\$ 0.89
April 1, 2017 through June 30, 2017	\$ 1.12	\$ 0.55

Holders

The number of record holders of the Company's common stock as of April 18, 2018 is approximately 183not including an indeterminate number who may hold shares in "street name."

Common Stock Dividends

The Company has not declared any cash dividends with respect to its common stock and does not intend to declare dividends in the foreseeable future. There are no material restrictions limiting, or that are likely to limit, our ability to pay dividends on our common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

Options

Equity Incentive Plan

In December 2015, the Company adopted the 2015 Equity Incentive Plan ("Incentive Plan") with a term of 10 years. The Incentive Plan allows for the issuance up to a maximum of 2 million shares of common stock, options exercisable into common stock of the Company or stock purchase rights exercisable into shares of common stock of the Company. The plan is administered by the board of directors unless a separate delegation to an administrator is made by the board of directors. Options granted under the plan carry a maximum term of 10 years, except to a grantee who is also a 10% beneficial owner at the time of grant, in which case the maximum term is 5 years. In addition, exercise prices of options granted must be within a certain percentage of the closing price on date of grant depending on the level of beneficial ownership of common stock of the Company by the grantee. All vesting conditions are set by the board or administrator. In December 2015, the Company filed a registration statement on Form S-8 covering all shares issued or issuable under the Incentive Plan.

Stock Plan

In December 2015, the Company adopted the 2015 Stock Plan ("Stock Plan"). As a condition of adoption of the Stock Plan, the Company entered into a registration statement on Form S-8 and covered the shares issued under the plan,

which registration statement was filed in December 2015. The Stock Plan allows for the issuance up to a maximum of 2 million shares of common stock of the Company. The plan is administered by the board of directors unless a separate delegation to an administrator is made by the board of directors. The Stock Plan shall continue in effect until such time as is terminated by the Board or all shares are issued pursuant to the Stock Plan.

The 2015 Equity Incentive Plan is designed to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Non-Qualified Stock Options, as determined by the Administrator at the time of grant. Stock purchase rights may also be granted under the Plan. The maximum aggregate number of shares which may be issued upon exercise of such Options or Stock Purchase Rights is two million (2,000,000) shares of Common Stock. The term of the option is five (5) years from the grant date of such shorter term as may be provided in the Option Agreement. The Plan become effective upon initial Board adoption and continues until terminated but in no case longer than ten (10) years. The Company had granted an option for the purchase of two million shares to date of which 1,500,000 have been exercised.

Common and Preferred Stock

The Company's authorized common stock consists of 100,000,000 common shares with par value of \$0.001 and 5,000,000 shares of preferred stock with par value of \$0.001 per share.

Reverse Stock Split:

Our board of directors and the holders of a majority of the shares of Common Stock entitled to vote thereon have adopted a resolution authorizing, but not requiring, a reverse split of our common stock at a ratio of 1-for-20. As a result of such reverse stock split, which was effected on November 16, 2015, the stock split has been recognized retroactively in the stockholders' equity accounts as of October 22, 1999, the date of our inception, and in all shares and per share data in the financial statements included herein.

Recent Sales of Unregistered Securities

Common Stock

Share issuances subsequent to the year ended June 30, 2017.

Subsequent to June 30, 2017 the Company issued a total of 44,010,791 shares of common stock upon conversion of the principal and unpaid interest accrued on its convertible notes and issued a total of 13,870,692 shares of common stock to members of the Board, employees and consultants for compensation.

In April 2018, the Company sold 500,000 shares of its common stock to a director for cash in the amount of \$20,000.

Share issuances during the fiscal year ended June 30, 2017:

During the year ended June 30, 2017, the Company issued 21,924 shares to employees, board members and consultants for services rendered. The Company valued those issuances on the closing price of the Company's stock as traded in the other-the-counter market on the date of grant.

The Company issued 902,163 shares of common stock in full satisfaction of principal and accrued interest of convertible notes issued in the fiscal year ended June 30, 2016.

The Company issued 50,000 shares of common stock as partial payment of the purchase price for the RV and Campground in Selma, Oregon.

In the year ended June 30, 2017, a holder exercised options (see below) and acquired 1,000,000 shares of common stock of the Company and remitted cash in the amount of \$400,000 to the Company.

Share issuances during the fiscal year ended June 30, 2016:

During the year ended June 30, 2016, the Company issued 1,191,364 shares to employees, board members and consultants for services rendered. The Company valued those issuances on the closing price of the Company's stock as traded in the other-the-counter market on the date of grant.

In September 2015, the Company and its former attorneys entered into a settlement of outstanding invoices due, in which the attorneys agreed to accept 45,000 shares of the Company's common stock in full satisfaction of the \$71,469 owed as of that date.

Preferred Stock

The Company has designated a Series A Convertible Preferred Stock (the "Series A Preferred"). The number of authorized shares totals 5,000,000 and the par value is \$.001 per share. The Series A Preferred shareholders vote together with the common stock as a single class. The holders of Series A Preferred are entitled to receive all notices relating to voting as are required to be given to the holders of the Common Stock. The holders of shares of Series A Preferred shall be entitled to 5 votes per share and have a conversion right granted to the holder to allow to convert into 5 common shares of the Company for each Series A Preferred Share held.

In December 2015, the board of directors of the Company granted the CEO and board member 5,000,000 shares of Series A preferred stock, which upon receipt were immediately converted by the holders into 25,000,000 shares of common stock of the Company. The Company valued this issuance at \$25 million, based upon the closing price of the common stock on date of grant of the Series A Preferred Shares.

All stock issuances discussed in this section under the heading Recent Sales of Unregistered Securities, were exempt from the registration requirements of Section 5 of the Securities Act of 1933 pursuant to Section 4(2) of the same Act since the issuances of the shares were to persons well known to the Company and did not involve any public offerings.

ITEM 6: SELECTED FINANCIAL DATA

Not required for smaller reporting companies.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Forward-looking Statements

Statements made in this Form 10-K which are not purely historical are forward-looking statements with respect to the goals, plan objectives, intentions, expectations, financial condition, results of operations, future performance and business of Grow Condos. Such forward-looking statements include those that are preceded by, followed by or that include the words "may", "would", "could", "should", "expects", "projects", "anticipates", "believes", "estimates", "plans", "intends", "targets" or similar expressions.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond our control) that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following: general economic or industry conditions nationally and/or in the communities in which we conduct business; legislation or regulatory requirements, including environmental requirements; conditions of the securities markets; competition; our ability to raise capital; changes in accounting principles, policies or guidelines; financial or political instability; acts of war or terrorism; and other economic, competitive, governmental, regulatory and technical factors affecting our operations, products, services and prices.

Accordingly, results actually achieved may differ materially from expected results in these statements. Forward-looking statements speak only as of the date they are made. Grow Condos does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Financial Statements

The consolidated financial statements which are a part of this Report are as of June 30, 2017 and 2016. The consolidated financial statements include the accounts of Grow Condos, Inc., and its wholly-owned subsidiaries, WCS Enterprises, LLC and Smoke on the Water, Inc. as of June 30, 2017. All significant intercompany accounting transactions have been eliminated as a result of consolidation.

Following is management's discussion and analysis of those financial statements. This discussion and analysis should be read in conjunction with our financial statements and notes thereto included elsewhere in Report on Form 10-K for the fiscal years ended June 30, 2017 and 2016.

Plan of Operations

The Company believes that its existing capital resources may not be adequate to satisfy its cash requirements for the next twelve months and further funding will be required to fully execute our business plans. Through the date of this report we have been able to rely on bank and non-bank financing in the form of mortgages, convertible notes with third parties, sales of common stock, and advances from related parties to continue to fund shortfalls in our operations. The Company estimates that it will require additional cash resources during fiscal 2018 and beyond based on its current operating plan and condition. The Company expects cash flows from operating activities to improve, primarily as a result of increased revenues from our current and proposed operating activities, however we do not presently have enough revenue to meet our overhead. We will continue to rely on funding from our officers, directors and third parties to meet our operational shortfalls. While we expect to continue to have these resources available to us, there is no guarantee we will be able to continue to meet our obligations in the normal course. If we fail to generate positive cash flow or obtain additional financing, when required, we may have to modify, delay, or abandon some or all of our business and expansion plans.

Results of Operations

Revenues

During the fiscal years ended June 30, 2017 and 2016, respectively we have recorded net revenues of \$143,441 and \$106,533 respectively.

Operating Expenses

Our consolidated operating expenses for the fiscal years ended June 30, 2017 and 2016 were as follows:

Operating expenses		
Cost of revenues	12,755	-
General and administrative	494,156	29,220,657
Sales and marketing	226,087	205,035
Professional fees	137,214	70,372
Depreciation, amortization and impairment	125,991	310,840
Total operating expenses	996,203	29,806,904

Our general and administrative expenses include rent, telephone, internet services, banking charges, salaries, stock based compensation, consulting fees and miscellaneous office costs.

During the comparative fiscal years ended June 30, 2017 and 2016, The Company experienced a substantial decrease in general and administrative expenses as a result of stock based compensation expense recorded in fiscal 2016 of \$28,862,140 as compared to (\$5,936) during the current fiscal year. Included in stock based compensation in the fiscal year ended June 30, 2016 was \$25,000,000 in compensation associated with the issuance of 5,000,000 preferred shares to directors as compensation, as well as an additional \$3,862,140 in expenses recorded relative to shares issued for non-employee services, common shares issued to directors as compensation, and certain stock options granted.

During fiscal 2017, stock based compensation includes shares issued for non-employee services and certain shares issued to directors valued at \$26,081 offset by the revaluation at time of vesting of an option issued to a consultant recorded in the prior fiscal year totaling \$32,017, resulting in a gain of \$5,936. Professional fees increased from \$70,372 during fiscal 2016 to \$137,214 in fiscal 2017 as the Company was required to re-audit its fiscal 2016 results, and also reported increased legal fees year over year. Depreciation, amortization and impairment declined from \$310,840 in fiscal 2016 to only \$125,991 in fiscal 2017 as a result of management's impairment testing of certain land

and condominium tenant building operations of WCS at the close of fiscal 2016, resulting in a one time write down of \$282,600, with an impairment recorded for Grow Condos for construction deposits and other costs related to the land purchased in March 2017 in the amount of approximately \$97,800.

Total operating expenses during fiscal 2017 totaled \$996,203 as compared to \$29,806,904 in fiscal 2016.

We expect operating expenses to increase in future periods as we continue to expand our holdings and our revenue base.

Other Expenses

Other expenses recorded in fiscal 2017 and 2016 totaled \$762,093 and \$97,844 respectively. The substantial increase to other expenses in fiscal 2017 is directly related to amortization of debt discount of \$639,107 in the current fiscal year as compared to only \$49,937 in the prior comparative fiscal year.

Net losses in the fiscal years ended June 30, 2017 and 2016 totaled \$1,614,855 and \$29,798,215 respectively.

Liquidity and Capital Resources

	At June 30, 2017	At June 30, 2016
Current Assets	\$ 46,946	\$ 59,551
Current Liabilities	2,075,990	535,709
Working Capital Deficit	\$ (2,029,044)	\$ (476,158)

As of June 30, 2017, the Company had total current assets of \$46,946 and a working capital deficit of \$2,029,044 compared to total current assets of \$59,551 and a working capital deficit of \$476,158 as of June 30, 2016. The increase in our working capital deficit was due to a substantial increase in our accrued liabilities of \$291,301 which allowed us to continue ongoing operations, as well as a substantive increase to short term mortgages of \$827,322 as we acquired additional property during the current year and one of our mortgages is now due within the 12 months following June 30, 2017. The Company also entered in certain convertible loan agreements during the most recent fiscal year which further increased our current liabilities.

During the fiscal year ended June 30, 2017, cash used by operating activities totaled \$533,550, primarily as a result of a net loss from operations of \$1,614,855, offset by certain non cash adjustments including non-cash interest of \$655,898, and depreciation, amortization and impairment expenses of \$125,991. In fiscal 2016 cash used by operating activities totaled \$316,357 with a net loss from operations of \$29,798,215 offset by non cash adjustments including stock based compensation of \$28,862,140, non-cash interest of \$49,937 and depreciation, amortization and impairment expenses of \$310,840.

Net cash used in investing activities was \$268,107 in fiscal 2017 as compared to \$22,322 in fiscal 2016, primarily as a result of the purchase of certain property in fiscal 2017.

Net cash provided by financing activities was \$787,576 in fiscal 2017 as compared to \$340,080 in fiscal 2016. During fiscal 2017 the Company received proceeds from convertible notes of \$440,000 and proceeds from the exercise of options totaling \$400,000, offset by certain mortgage repayments and repayments to related parties. During fiscal 2016, the Company received proceeds from convertible notes of \$158,750, proceeds from the exercise of options of \$200,000 and \$10,575 from advances of related parties, offset by mortgage repayments.

Going Concern

At June 30, 2017 and June 30, 2016, the Company reported a net loss of \$1,614,855 and \$29,798,215, respectively. The Company believes that its existing capital resources are not adequate to enable it to execute its business plan. As of June 30, 2017, we had a net working capital deficit of approximately \$2,029,000. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. The Company estimates that it will require additional cash resources during fiscal year 2018 and beyond based on its current operating plan and condition. Through October 2018, three of the four mortgages on the properties of the Company mature, which will require approximately \$1.2 million to satisfy those mortgages. The Company expects cash flows from operating activities to improve marginally in the short term, primarily as a result of an increase in cash received from tenants and a decrease in certain operating expenses, although there can be no assurance thereof. In addition, there can be no assurance that new tenants will become available after 2019 when the remaining leases expire for the Eagle Point condominium. If we fail to generate positive cash flow or obtain additional financing, when required, we may have to modify, delay, or abandon some or all of our business and expansion plans, and potentially cease operations altogether. The accompanying consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements of any kind for the period ended June 30, 2017 and 2016.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Grow Condos, Inc.:

We have audited the accompanying consolidated balance sheets of Grow Condos, Inc. as of June 30, 2017 and 2016, and the related consolidated statements of operations, stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Stem Holdings, Inc. as of June 30, 2017 and 2016 and the results of its operations and its cash flows for the year ended September 30, 2017 and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred losses from operations since inception and is dependent upon access to additional external financing. These conditions raise substantial doubt concerning its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ L J Soldinger Associates, LLC

Deer Park, Illinois

April 24, 2018

GROW CONDOS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

ASSETS	June 30, 2017	June 30, 2016
CURRENT ASSETS:		
Cash	\$ 30,067	\$ 44,148
Lease receivable, net of allowance for doubtful accounts	89	79
Prepaid expenses	16,790	15,324
Total current assets	46,946	59,551
Property, plant and equipment, net	2,092,320	1,241,204
Other assets	26,006	22,539
Deposits	2,823	5,381
TOTAL ASSETS	\$ 2,168,095	\$ 1,328,675
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 19,236	\$ 3,000
Accrued liabilities	588,903	297,602
Advances from related parties	100,000	115,575
Convertible notes payable, net of discount	514,264	83,907
Short term mortgages	827,322	-
Current portion of mortgage loans payable	26,265	35,625
Total current liabilities	2,075,990	535,709
Mortgage loans payable, net of current portion	970,805	1,200,616
Other liabilities	52,500	20,300
Total Non-Current Liabilities	1,023,305	1,220,916
TOTAL LIABILITIES	3,099,295	1,756,625
Commitments and contingencies	-	-
STOCKHOLDERS' DEFICIT		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, none issued and outstanding	\$ -	\$ -
Common stock, \$0.001 par value, 100,000,000 shares authorized, 30,795,375 and 28,821,288 issued, issuable and outstanding at June 30, 2017 and June 30, 2016 respectively.	30,795	28,821
Additional paid-in capital	41,891,602	40,781,971
Accumulated deficit	(42,853,597)	(41,238,742)

Total stockholders' deficit	(931,200)	(427,950)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 2,168,095	\$ 1,328,675

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

GROW CONDOS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended	
	June 30,	
	2017	2016
Net revenues	\$ 143,441	\$ 106,533
Operating expenses		
Cost of revenues	12,755	-
General and administrative	494,156	29,220,657
Sales and marketing	226,087	205,035
Professional fees	137,214	70,372
Depreciation, amortization and impairment	125,991	310,840
Total operating expenses	996,203	29,806,904
Income (Loss) from operations	(852,762)	(29,700,371)
Other income (expense):		
Gain on cancellation of purchase option	-	12,000
Interest expense	(762,093)	(109,844)
Total other income (expense), net	(762,093)	(97,844)
Net income (loss)	\$ (1,614,855)	\$ (29,798,215)
Basic and diluted net loss per common share	\$ (0.05)	\$ (1.65)
Weighted average shares outstanding used in completing basic and diluted net loss per common share	29,903,599	18,086,909

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

GROW CONDOS, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended June 30, 2017 and 2016

	Preferred Shares		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Liabilities & Shareholders Deficit
Balance, June 30, 2015	-	\$ -	2,084,924	\$ 2,085	\$ 11,547,068	\$ (11,440,527)	\$ 108,626
Shares issued to non-employee for services			1,010,000	1,010	1,009,240		1,010,250
Shares issued to satisfy liability			45,000	45	71,424		71,469
Common shares issued to officer and directors for compensation			181,364	181	274,742		274,923
Preferred shares issued to officer and directors for compensation	5,000,000	5,000			24,995,000		25,000,000
Conversion of Series A Preferred stock	(5,000,000)	(5,000)	25,000,000	25,000	(20,000)		-
Stock option granted					2,580,217		2,580,217
Exercise of options			500,000	500	199,500		200,000
Beneficiary conversion feature associated with convertible notes					124,780		124,780
						(29,798,215)	(29,798,215)

Loss for the period							
Balance, June 30, 2016	-	-	28,821,288	28,821	40,781,971	(41,238,742)	(427,950)
Exercise of options			1,000,000	1,000	399,000		400,000
revaluation of consultant options upon vesting					(32,017)		(32,017)
Shares issued due to conversion of convertible notes and unpaid interest			902,163	902	224,639		225,541
Shares issued to non-employee for services			7,500	8	7,192		7,200
Shares issued to Officers and Directors			14,424	14	18,867		18,881
Beneficiary conversion feature associated with convertible notes					440,000		440,000
Shares issued as part of purchase price for property acquisition			50,000	50	51,950		52,000
Loss for the period						(1,614,855)	(1,614,855)
Balance, June 30, 2017	- \$	-	30,795,375 \$	30,795	\$ 41,891,602	\$ (42,853,597)	\$ (931,200)

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

GROW CONDOS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the Fiscal Year Ended June 30,
2017 **2016**

**CASH FLOWS FROM
OPERATING
ACTIVITIES:**

Net loss	\$ (1,614,855)	\$ (29,798,215)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and impairment expense	125,991	310,840
Non-cash interest	655,898	49,937
Stock based compensation	(5,936)	28,862,140
Gain on cancellation of property purchase option	-	(12,000)
Changes in operating assets and liabilities:		
Lease receivable	(10)	1,082
Prepaid expenses	(1,466)	(9,099)
Other assets	(909)	(16,696)
Accounts payable, trade	16,236	(67,036)
Accrued expenses	291,301	362,690
Other liabilities	200	-
Net cash used (provided) in operating activities	(533,550)	(316,357)

**CASH FLOWS FROM
INVESTING
ACTIVITIES:**

Proceeds from purchase option on property	32,000	6,000
Purchase of property, plant, and equipment	(300,107)	(28,322)
Net cash used in investing activities	(268,107)	(22,322)

**CASH FLOWS FROM
FINANCING**

ACTIVITIES:			
Repayment of mortgages		(36,849)	(29,245)
Proceeds from convertible notes		440,000	158,750
Proceeds (repayments) related party advances		(15,575)	10,575
Proceeds from exercise of options		400,000	200,000
Net cash (used) provided by financing activities		787,576	340,080
Net increase (decrease) in cash			
		(14,081)	1,401
Cash at beginning of period		44,148	42,747
Cash at the end of the period	\$	30,067	\$ 44,148
Supplemental Disclosure of Cash Flows Information:			
Cash paid for interest	\$	56,735	\$ 52,704
Cash paid for income taxes	\$	-	\$ -
Non-cash Investing and Financing Activities:			
Conversion of debt and accrued interest into common stock	\$	225,541	\$ -
Shares issued for acquisition of property	\$	52,000	\$ -
Settlement of liability through issuance of stock	\$		\$ 71,469
Beneficial conversion feature discount recorded	\$	440,000	\$ 124,780
Stock settled debt liability	\$	350,000	\$ -
Seller financing of real estate	\$	625,000	\$ 267,129

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

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of the Corporation:

Grow Condos, Inc. ("GCI" or the "Company") (f/k/a Fanatic Fans Inc. and Calibrus, Inc.) was incorporated on October 22, 1999, in the State of Nevada.

Our wholly owned subsidiary, WCS Enterprises, Inc. ("WCS") is an Oregon limited liability company which was formed on September 9, 2013 with operations beginning in October 2013. WCS is a real estate purchaser, developer and manager of specific use industrial properties providing "Condo" style turn-key aeroponics grow facilities to support cannabis farmers. WCS intends to own, lease, sell and manage multi-tenant properties so as to reduce the risk of ownership and reduce costs to tenants and owners.

Our wholly owned subsidiary, Smoke on the Water, Inc. was incorporated on October 21, 2016, in the State of Nevada. Smoke on the Water is focused on acquiring properties in the RV and campground rental industry.

On March 7, 2017, Smoke on the Water, Inc. executed a Real Estate Purchase Agreement to acquire the Lake Selmac Resort located at 2700 Lakeshore Drive, Selma, Oregon (see Note 3 below).

Basis of Presentation:

The accompanying consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States ("GAAP"), and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC").

Consolidation

These consolidated financial statements include the accounts of Grow Condos, Inc., and its wholly-owned subsidiaries, WCS, Enterprises, LLC and Smoke on the Water, Inc. as of June 30, 2017. All significant intercompany accounting transactions have been eliminated as a result of consolidation.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe that it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events and the effect of the change would be material to the financial statements.

Significant estimates include, but are not limited to, assumptions used in the valuation of equity compensation, allocation of purchase price for acquired assets and assumptions used in our impairment testing of long-lived assets.

Cash and Cash Equivalents

For financial accounting purposes, cash and cash equivalents are considered to be all highly liquid investments with a maturity of three (3) months or less at the time of purchase.

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies (cont'd)

Lease Receivables and deferred rent

Lease receivables are recognized when rents are due, and for the straight-line adjustment to rents over the term of the lease less an allowance for expected uncollectible amounts. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, the customer's willingness or ability to pay, the Company's compliance with lease terms, the effect of general economic conditions and the ongoing relationship with the customer. Accounts with outstanding balances longer than the payment terms are considered past due. We do not charge interest on past due balances. The Company writes off lease receivables when it determines that they have become uncollectible after all reasonable collection efforts have been made. If we record bad debt expense, the amount is reflected as a component of operating expenses in the statements of operations. As of June 30, 2017, and 2016, an allowance for doubtful accounts was recorded in the amount of \$ 2,861. As of June 30, 2017 and 2016, the Company had recorded deferred rent for the straight-line value of rental income of \$26,006 and \$22,539 respectively as part of other assets.

Investment In and Valuation of Real Estate Assets

Real estate assets are stated at cost, less accumulated depreciation and amortization. Amounts capitalized to real estate assets consist of the cost of acquisition (excluding acquisition related expenses), construction costs, and mortgage interest during the period the facilities are under construction and prior to readiness for occupancy, and any tenant improvements, major improvements and betterments that extend the useful life of the real estate assets and leasing costs. All repairs and maintenance are expensed as incurred.

The Company is required to make subjective assessments as to the useful lives of its depreciable assets. The Company considers the period of future benefit of each respective asset to determine the appropriate useful life of the assets. Real estate assets, other than land, are depreciated on a straight-line basis over the estimated useful life of the asset. The estimated useful lives of the Company's real estate assets by class are generally as follows:

Land	Indefinite
Buildings	40 years

Tenant improvements Lesser of useful life or lease term

Intangible lease assets Lease term

Revenue Recognition

We recognize revenue only when all of the following criteria have been met:

- o persuasive evidence of an arrangement exists;
- o use of the real property has taken place or services have been rendered;
- o the fee for the arrangement is fixed or determinable; and
- o collectability is reasonably assured.

Persuasive Evidence of an Arrangement – We document all terms of an arrangement in a real property lease signed by the tenant, for leases with a term greater than 30 days, prior to recognizing revenue.

GROW CONDOS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 1 – Organization and Summary of Significant Accounting Policies (cont'd)**

Our real property lease agreements, which are governed by the laws of the state of Oregon, usually are non-cancellable and range from six to thirty-six months with a cash security deposit and personal guarantee required. We account for our leases in accordance with Accounting Standard Codification ("ASC") Topic 840, *Leases*, as operating leases. Leases may include escalating rental rates, an option to extend the term of the lease at a fixed rental rate, and an option to purchase the portion of the building being leased at the end of the lease term. Leases may be assigned with our approval. Common area maintenance and water are paid by the Company with the tenant responsible for maintenance, repairs and liability insurance associated with their specific unit within the building. Cash received for purchase options is recorded as deferred option revenue in the accompanying consolidated financial statements. These amounts are recorded to revenue upon the exercise of the option by the tenant or the expiration of the unused option.

Future minimum lease payments to be received under non-cancelable real property leases are as follows as of June 30, 2017 for the fiscal year ending in:

2018	\$ 117,400
2019	16,200
	\$ 133,600

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$226,087 and \$205,035 for the fiscal years ended June 30, 2017 and 2016, respectively.

Fair Value of Financial Instruments:

The Company follows the fair value measurement rules, which provides guidance on the use of fair value in accounting and disclosure for assets and liabilities when such accounting and disclosure is called for by other accounting literature. These rules establish a fair value hierarchy for inputs to be used to measure fair value of financial assets and liabilities. This hierarchy prioritizes the inputs to valuation techniques used to measure fair value

into three levels: Level 1 (highest priority), Level 2, and Level 3 (lowest priority).

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the balance sheet date.

Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3—Inputs are unobservable and reflect the Company's assumptions as to what market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available.

Investments are reflected in the accompanying financial statements at fair value. The carrying amount of receivables and accounts payable and accrued expenses approximates fair value due to the short-term nature of those instruments.

The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The carrying amounts of lease receivables, accounts payable, accrued liabilities, and mortgages payable approximate fair value given their short term nature or effective interest rates, which constitutes level three inputs.

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies (cont'd)

Share-based compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. Restricted stock awards are measured based on the fair market values of the underlying stock on the dates of grant. For service type awards, share-based compensation expense is recognized on a straight-line basis over the period during which the employee is required to provide service in exchange for the entire award. For awards that vest or begin vesting upon achievement of a performance condition, the Company estimates the likelihood of satisfaction of the performance condition and recognizes compensation expense when achievement of the performance condition is deemed probable using an accelerated attribution model.

The fair value of options is calculated using the Black-Scholes option pricing model to determine the fair value of stock options on the date of grant based on key assumptions such as expected volatility and expected term, so long as the option does not contain provisions that require a more complex model to be used.

Convertible debt and beneficial conversion features

The Company evaluates embedded conversion features within convertible debt under ASC 815 "Derivatives and Hedging" 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 earnings. If the conversion feature does not require derivative treatment under ASC 815, the instrument is evaluated under ASC 470-20 "Debt with Conversion and Other Options" for consideration of any beneficial conversion features.

Stock settled debt

In certain instances, the Company will issue convertible notes which contain a provision in which the price of the conversion feature is priced at a fixed discount to the trading price of the Company's common shares as traded in the over-the-counter market. In these instances, the Company records a liability, in addition to the principal amount of the convertible note, as stock-settled debt for the fixed value transferred to the convertible note holder from the fixed

discount conversion feature. As of December 31, 2017 and 2016, the Company had recorded within Convertible Notes, net of discount, the amount of \$350,000 and \$nil for the value of the stock settled debt for certain convertible notes (see Note 8).

Impairment of long-lived assets

The Company monitors its long-lived assets and finite-lived intangibles for indicators of impairment. If such indicators are present, the Company assesses the recoverability of affected assets by determining whether the carrying value of such assets is less than the sum of the undiscounted future cash flows of the assets. If such assets are found not to be recoverable, the Company measures the amount of such impairment by comparing the carrying value of the assets to the fair value of the assets, with the fair value generally determined based on the present value of the expected future cash flows associated with the assets.

Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and credit carryforwards. Deferred tax assets and liabilities are measured at rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. A valuation allowance is recorded when it is not more likely than not that all or a portion of the net deferred tax assets will be realized.

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies (cont'd)

Net (loss) income per share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period and contains no dilutive securities. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. For the fiscal years ended June 30, 2017 and 2016, all potentially dilutive securities are anti-dilutive due to the Company's losses from operations.

All dilutive common stock equivalents are reflected in our earnings (loss) per share calculations. Anti-dilutive common stock equivalents are not included in our earnings (loss) per share calculations.

The following table sets forth the number of dilutive shares as of June 30, 2017.

Options	500,000
Warrants	300,000
Convertible notes*	2,567,000
Total diluted shares	3,367,000

* the number of shares was calculated based on the closing price of the common stock of the Company as of June 30, 2017.

Recent accounting pronouncements

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments". This standard clarifies the presentation of certain specific cash flow issues in the Statement of cash flows. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The adoption of this guidance is

not expected to have a significant impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash". This standard requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows and no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. This standard is effective for public companies who are SEC filers for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business". This standard changed the definition of a business to help entities determine whether a set of transferred assets and activities is a business. This standard is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company elected to early adopt ASU No. 2017-01 and applied the guidance to the Transaction, which was accounted for as an asset acquisition under the revised guidance.

In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation (Topic 718): Scope of Modification Accounting". This standard clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification, with entities applying the modification accounting guidance if the value, vesting conditions or classification of the award changes. In addition to all disclosures about modifications that are required under the current guidance, entities will be also required to disclose that compensation expense has not changed if applicable. This standard is effective for public companies who are SEC filers for fiscal years, and interim periods

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies (cont'd)

within those fiscal years, beginning after December 15, 2017, with early adoption permitted, including any interim period for which financial statements have not yet been issued or made available for issuance. The guidance will be applied prospectively to awards modified on or after the adoption date. The Company expects to adopt this guidance when effective.

Note 2 – Going Concern

At June 30, 2017 and June 30, 2016, the Company reported a net loss of \$1,614,855 and \$29,798,215, respectively. The Company believes that its existing capital resources are not adequate to enable it to execute its business plan. As of June 30, 2017, we had a net working capital deficit of approximately \$2,029,000. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. The Company estimates that it will require additional cash resources during fiscal year 2018 and beyond based on its current operating plan and condition. Through October 2018, three of the four mortgages on the properties of the Company mature, which will require approximately \$1.2 million to satisfy those mortgages. The Company expects cash flows from operating activities to improve marginally in the short term, primarily as a result of an increase in cash received from tenants and a decrease in certain operating expenses, although there can be no assurance thereof. In addition, there can be no assurance that new tenants will become available after 2019 when the remaining leases expire for the Eagle Point condominium. If we fail to generate positive cash flow or obtain additional financing, when required, we may have to modify, delay, or abandon some or all of our business and expansion plans, and potentially cease operations altogether. The accompanying consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Note 3 – Acquisition of Lake Selmac Resort

On March 7, 2017, the Company, through its wholly-owned subsidiary Smoke on the Water, Inc. executed a Real Estate Purchase Agreement to acquire the Lake Selmac Resort located at 2700 Lakeshore Drive, Selma, Oregon. The Company agreed to acquire the property for a purchase price of \$875,000 plus closing costs consisting of a seller financing note in the amount of \$625,000 with the seller carrying the note at 5% per annum for the first twelve months and then 6% per annum for the next four years, \$200,000 in cash plus closing costs, and 50,000 shares of the Company's common stock valued at \$52,000 based on the closing price of the common stock at the close. Because all RV and campground rentals have contracts lengths for a maximum term of 30 days, no amounts were allocated to the small number of rentals acquired at acquisition.

Note 4 – Acquisition of Land in Pioneer Business Park

In April 2016, the Company purchased a parcel of land near Eugene, Oregon within the Pioneer Business Park from a private seller in the amount of \$326,629 plus closing costs. As part of the purchase, the Seller financed through a note payable \$267,129 of the purchase price (see Note 7). The intent of the Company was to build an industrial condominium building on the parcel, akin to the WCS property. The Company was unable to secure additional funding via debt or equity and due to the hostility of the local county government towards the intended operations of the tenants, the Company in late calendar 2017 abandoned those plans. As part of the abandonment, the Company recorded an impairment charge in the amount of approximately \$97,800 for the value of contractor deposits and other deposits on improvements in the fiscal year ended June 30, 2017. After June 30, 2017, the Company has made the determination due to the hostility of the local government to put the parcel up for sale (see Note 13).

GROW CONDOS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 5 – Property and Equipment, Net**

Property and improvements consisted of the following as of June 30, 2017 and 2016:

	June 30,	June 30,
	2017	2016
Cost		
Buildings and improvements	\$ 1,360,240	\$ 1,114,190
Land	1,103,791	482,205
Furniture and Fixture	15,271	3,563
	2,479,302	1,599,958
Less: accumulated depreciation and impairment	(386,982)	(358,754)
	\$ 2,092,320	\$ 1,241,204

On June 30, 2016, the Company made the determination in its impairment testing that the land and condominium tenant building operation of WCS required an impairment of approximately \$282,600.

Depreciation expense (excluding impairment) amounted to \$28,228 and \$28,228 for the year ended June 30, 2017 and 2016, respectively.

Note 6 – Accrued Liabilities

Accrued Liabilities at June 30, 2017 and 2016 consist of the following:

June 30,	June 30,
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	2017	2016
Accrued salaries and wages	\$ 514,372	294,800
Accrued expenses	74,531	2,802
	\$ 588,903	297,602

Note 7 – Mortgages Payable

In 2013, upon the acquisition of the condominium property in Eagle Point, Oregon, WCS assumed the mortgage payable of the Seller to Peoples Bank of Commerce, NA. The original principal amount of the mortgage was \$930,220, bears interest at the rate of the bank's prime rate plus 1.75%, and required 58 monthly payments of \$5,946 and matures on June 28, 2018 with a balloon payment due at that time of \$802,294. The mortgage is secured by liens against certain properties owned by the Seller. As of June 30, 2017 and 2016, the balance on the mortgage was \$827,322 and \$859,209, respectively.

In 2013, after acquisition, WCS entered into a second mortgage with Peoples Bank of Commerce, NA in the amount of \$120,000. The mortgage bears interest at the rate of the bank's prime rate plus 3%, requires 56 monthly payments of \$883 and matures on October 15, 2018 with a balloon payment due at maturity of \$104,329. The mortgage is collateralized by a deed of trust and assignment of rents with the Seller and WCS in the amount of \$120,000. As of June 30, 2017 and 2016, the balance on the mortgage was \$107,139 and \$109,903, respectively.

In April 2016, as more fully described in Note 4, the Company acquired a parcel of land and entered into a mortgage with the seller in the amount of \$267,129. The mortgage bears an interest rate of 6% per annum and has a maturity date of the sooner of (a) October 1, 2017 or the date construction begins on the condominium building proposed to be built. As of June 30, 2017 and 2016, the balance on the mortgage was \$267,129, respectively. In October 2017, the Company entered into an amended mortgage by making a principal payment of \$15,000 and financing the remaining balance of \$252,129. The amended mortgage bears interest at the rate of 6% per annum and requires

GROW CONDOS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 7 – Mortgages Payable(cont'd)**

interest only monthly payments of \$1,261 from November 2017 through June 2018 with the remaining amount due on the note in the form of a final balloon payment will be due in July 2018. The note is unsecured.

In March 2017, as more fully described in Note 3, the Company acquired a RV and campground park in Selma, Oregon. Upon closing, the Company entered into mortgage payable with the Seller in the amount of \$625,000 with a maturity date of March 6, 2022. The mortgage bears interest at the rate of 5% per annum covering the monthly payments of \$3,355 for the following 12 months, then increases to 6% per annum for the monthly payments of \$3,747 for the following 48 months. Upon maturity, the remaining balance due on the note is required to be paid through a balloon payment. As of June 30, 2017, the balance on the mortgage was \$622,802. The note is unsecured.

The future principal payments for loans with maturity dates greater than one year required under our mortgages as of June 30, 2017 were as follows:

2018	\$ 26,265
2019	365,403
2020	8,882
2021	9,430
2022	587,090
Thereafter	-
	\$ 997,070

Because the Company successfully refinanced the Seller mortgage for the Pioneer Business Park parcel, the Company has treated that mortgage as long-term in these financials statements, and the payments required over the term of the mortgage are included in the table above.

Note 8 – Convertible Notes Payable

At June 30, 2017 and June 30, 2016, convertible notes payable consisted of the following:

	June 30,	June 30,
	2017	2016
Principal amount	\$ 515,000	\$ 208,750
Liability on stock settled debt	350,000	-
Less: unamortized debt discount	(350,736)	(124,843)
Convertible notes payable, net	\$ 514,264	\$ 83,907

Auctus Fund, LLC Agreement:

On March 21, 2016 the Company entered into a transaction with Auctus Fund, LLC (“Auctus”). In exchange for \$75,000 cash net of fees, the Company issued a convertible promissory note in the amount of \$83,750. The Note had a maturity date of nine (9) months from date of issue and interest at 10% per annum. The note is convertible at any time at the option of the holder into the common stock of the Company at the rate of the lower of (a) \$0.25 or (b) 50% of the lowest trading price of the Company’s common stock during the 10 preceding trading days prior to the notice of conversion per \$1 of principal. Total beneficial conversion feature discount recognized was \$56,780 which is being amortized over the terms of the convertible notes payable. During the fiscal year ended June 30, 2017 and 2016, the Company recognized interest expense of \$36,752 and \$20,028, respectively, related to the amortization of the debt discount. The unamortized balance was \$nil and \$36,752, respectively, as of June 30, 2017 and 2016. In October 2016, Auctus gave notice of conversion and the Company issued 352,163 shares of its

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Convertible Notes Payable(cont'd)

common stock in full satisfaction of the entire principal and accrued interest balance of \$88,041 of the convertible note.

On January 23, 2017 the Company entered into a convertible promissory note with Auctus Fund, LLC, and received net proceeds of \$150,000 in the gross amount of \$175,000. The Company paid original issuance cost of \$25,000 in connection with this note which will be amortized over the term of the note. The Note has a maturity date of October 23, 2017 and interest at 10% per annum with fixed conversion price of 50% of the lowest closing price for the 10 trading days prior to the conversion date. The Company recorded \$175,000 as liability on stock settled debt associated with this convertible note. In connection with the issuance of the Note the Company also issued a one year warrant to purchase 150,000 of common stock of the Company at \$0.85 subject to adjustment for standard anti-dilution events. The warrant has a term of 21 months. The Company has granted the holder piggy back rights for the common stock underlying the convertible debenture and warrants. Total beneficial conversion feature discount recognized was \$325,000 which is being amortized over the terms of the convertible notes payable. During the fiscal year ended June 30, 2017 the Company recognized interest expense of \$188,095 related to the amortization of the beneficial conversion feature discount and \$14,469 related to the amortization of original issuance cost. The unamortized balance of beneficial conversion feature was \$136,905 and the unamortized balance of original issuance cost was \$10,531 as of June 30, 2017. Subsequent to the year ended June 30, 2017, Auctus gave notice and fully converted the entire principal and accrued interest balance into 13,403,839 shares of common stock of the Company.

Tangiers Financing Agreement:

On March 28, 2016 the Company entered into convertible note with Tangiers Global, LLC (“Tangiers”), and received net proceeds of \$75,000 from a convertible note in the gross amount of \$100,000. The Note had a maturity date of six (6) months from the date of issue and interest at 10% per annum with fixed conversion price of \$0.25. The Company paid original issuance cost of \$10,000 and included legal fees incurred by Tangiers of \$15,000 in connection with this note which will be amortized over the term of the convertible note. Total beneficial conversion feature discount recognized was \$68,000 which being amortized over the terms of the convertible notes payable. During the fiscal year ended June 30, 2017, the Company recognized interest expense of \$50,488 related to the amortization of the beneficial conversion feature discount and \$18,562 related to the amortization of original issuance cost. During the fiscal year ended June 30, 2016, the Company recognized interest expense of \$17,512 related to the amortization of the beneficial conversion feature discount and \$6,438 related to the amortization of original issuance cost. As of June 30, 2017, and 2016, the unamortized balance of beneficial conversion feature was \$nil and \$50,488, respectively, and the unamortized balance of original issuance cost was \$nil and \$18,562, respectively. In October and November 2016, Tangiers gave notice to the Company and converted the entire principal and accrued interest under the note of

\$110,000 into 440,000 shares of common stock of the Company.

On April 4, 2016 the Company entered into convertible promissory note in the amount of \$25,000 and received zero proceeds. The Note had a maturity date of April 4, 2017 and an interest at 10% per annum. The note is convertible at any time at the option of the holder into the common stock of the Company at the rate of the lower of (a) \$0.25 or (b) 60% of the lowest trading price of the Company's common stock during the 20 preceding trading days prior to the notice of conversion per \$1 of principal. Total beneficial conversion feature discount recognized was zero. During the fiscal year ended June 30, 2017 and 2016, the Company recognized interest expense of \$19,041 and \$5,959 related to the amortization of issuance cost, respectively. As of June 30, 2017, and 2016, the unamortized balance of issuance cost was \$nil and \$19,041, respectively. In February 2017, Tangiers gave notice to the Company and converted the entire principal and accrued interest under the note of \$27,500 into 110,000 shares of common stock of the Company.

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Convertible Notes Payable(cont'd)

On January 20, 2017 the Company entered into a convertible promissory note in the amount of \$165,000. The Note is due July 20, 2017 and bears an interest rate of 10% and is convertible into shares of the Company's common stock at \$.85 per share, unless the event of a default, at which time the conversion rate changes to a fixed 50% discount to

the lowest prior 10 day trading price. The Note was issued with a \$15,000 original issue convertible issue discount. In connection with the issuance of the Note the Company also issued a one year warrant to purchase 150,000 of common stock of the Company at \$0.85 subject to adjustment for standard anti-dilution events. The warrant has a term of 1 year. The Company has granted the holder piggy back rights for the common stock underlying the convertible debenture and warrants. Total beneficial conversion feature discount recognized was \$140,000 which being amortized over the terms of the convertible notes payable. During the fiscal year ended June 30, 2017, the Company recognized interest expense of \$124,530 related to the amortization of the beneficial conversion feature discount and \$22,238 related to the amortization of original issuance cost and legal fees. As of June 30, 2017, the unamortized balance of beneficial conversion feature was \$15,470 and the unamortized balance of original issuance cost and legal fee was \$2,762, respectively. Subsequent to the year ended June 30, 2017, and upon default for non-payment, Tangiers gave notice and converted the entire principal and accrued interest balance into 15,023,320 shares of common stock of the Company.

EMA Financing Agreement:

On January 9, 2017 the Company entered into a convertible promissory note with EMA Financial LLC and received net proceeds of \$150,000 in the gross amount of \$175,000. The Company paid original issuance cost of \$25,000 in connection with this note which will be amortized over the term of the note. The Note has a maturity date of January 9, 2018 and interest at 10% per annum with fixed conversion price of 50% of the lowest closing price for the 10 trading days prior to the conversion date. The Company recorded \$175,000 as liability on stock settled debt associated with this convertible note. Total beneficial conversion feature discount recognized was \$325,000 which being amortized over the terms of the convertible notes payable. During the fiscal year ended June 30, 2017 the Company recognized interest expense of \$153,151 related to the amortization of the beneficial conversion feature discount and \$11,781 related to the amortization of original issuance cost. The unamortized balance of beneficial conversion feature was \$171,849 and the unamortized balance of original issuance cost was \$13,219 as of June 30, 2017. Subsequent to the year ended June 30, 2017, EMA gave notice and converted the entire principal and accrued interest balance into 15,583,632 shares of common stock of the Company.

The following table sets forth interest expense for amortization of the beneficial conversion feature and original issue discount recognized related to the Convertible Notes:

	Year ended June 30,	
	2017	2016
Amortization of debt issuance costs	\$ 86,091	\$ 12,397
Amortization of beneficial conversion feature discount	553,016	37,540
Total	\$ 639,107	\$ 49,937

Note 9 – Capital Stock

Our board of directors and the holders of a majority of the shares of Common Stock entitled to vote thereon have adopted a resolution authorizing, but not requiring, a reverse split of our common stock at a ratio of 1-for-20. As a result of such reverse stock split, which was affected on November 16, 2015, the stock split has been recognized

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Capital Stock(cont'd)

retroactively in the stockholders' equity accounts as of October 22, 1999, the date of our inception, and in all shares and per share data in the financial statements

The Company's authorized common stock consists of 100,000,000 common shares with par value of \$0.001 and 5,000,000 shares of preferred stock with par value of \$0.001 per share.

Equity Incentive Plan

In December 2015, the Company adopted the 2015 Equity Incentive Plan (“Incentive Plan”) with a term of 10 years. The Incentive Plan allows for the issuance up to a maximum of 2 million shares of common stock, options exercisable into common stock of the Company or stock purchase rights exercisable into shares of common stock of the Company. The plan is administered by the board of directors unless a separate delegation to an administrator is made by the board of directors. Options granted under the plan carry a maximum term of 10 years, except to a grantee who is also a 10% beneficial owner at the time of grant, in which case the maximum term is 5 years. In addition, exercise prices of options granted must be within a certain percentage of the closing price on date of grant depending on the level of beneficial ownership of common stock of the Company by the grantee. All vesting conditions are set by the board or administrator. In December 2015, the Company filed a registration statement on Form S-8 covering all shares issued or issuable under the Incentive Plan.

Stock Plan

In December 2015, the Company adopted the 2015 Stock Plan (“Stock Plan”). As a condition of adoption of the Stock Plan, the Company entered into a registration statement on Form S-8 and covered the shares issued under the plan, which registration statement was filed in December 2015. The Stock Plan allows for the issuance up to a maximum of 2 million shares of common stock of the Company. The plan is administered by the board of directors unless a separate delegation to an administrator is made by the board of directors. The Stock Plan shall continue in effect until such time as is terminated by the Board or all shares are issued pursuant to the Stock Plan.

Common Stock

Share issuances during the fiscal year ended June 30, 2017:

During the year ended June 30, 2017, the Company issued 21,924 shares to employees, board members and consultants for services rendered. The Company valued those issuances on the closing price of the Company's stock as traded in the other-the-counter market on the date of grant.

As described more fully above in Note 8, the Company issued 902,163 shares of common stock in full satisfaction of principal and accrued interest of convertible notes issued in the fiscal year ended June 30, 2016.

As more fully described in Note 4, the Company issued 50,000 shares of common stock as partial payment of the purchase price for the RV and Campground in Selma, Oregon.

In the year ended June 30, 2017, a holder exercised options (see below) and acquired 1,000,000 shares of common stock of the Company and remitted cash in the amount of \$400,000 to the Company.

Share issuances during the fiscal year ended June 30, 2016:

During the year ended June 30, 2016, the Company issued 1,191,364 shares to employees, board members and consultants for services rendered. The Company valued those issuances on the closing price of the Company's stock as traded in the other-the-counter market on the date of grant.

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Capital Stock(cont'd)

In September 2015, the Company and its former attorneys entered into a settlement of outstanding invoices due, in which the attorneys agreed to accept 45,000 shares of the Company's common stock in full satisfaction of the \$71,469 owed as of that date.

Preferred Stock

The Company has designated a Series A Convertible Preferred Stock (the "Series A Preferred"). The number of authorized shares totals 5,000,000 and the par value is \$.001 per share. The Series A Preferred shareholders vote together with the common stock as a single class. The holders of Series A Preferred are entitled to receive all notices relating to voting as are required to be given to the holders of the Common Stock. The holders of shares of Series A Preferred shall be entitled to 5 votes per share and have a conversion right granted to the holder to allow to convert into 5 common shares of the Company for each Series A Preferred Share held.

In December 2015, the board of directors of the Company granted the CEO and board member 5,000,000 shares of Series A preferred stock, which upon receipt were immediately converted by the holders into 25,000,000 shares of common stock of the Company. The Company valued this issuance at \$25 million, based upon the closing price of the common stock on date of grant of the Series A Preferred Shares.

Warrants

On January 20, 2017, as more fully described in Note 8, the Company issued two warrants for 300,000 shares, exercisable at \$0.85 in connection with the issuance of a convertible notes.

Weighted Average Remaining	Aggregate Intrinsic
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	Number of Warrants	Weighted Average Exercise Price	Contractual Term (in years)	Value
Outstanding at June 30, 2016	-	-		
Granted	300,000	0.85		
Exercised	-	-		
Forfeited	-	-		
Outstanding at June 30, 2017	300,000	\$ 0.85	0.58	\$ -
Exercisable at June 30, 2017	300,000	\$ 0.85	0.58	\$ -

GROW CONDOS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Capital Stock(cont'd)

The table below includes the significant ranges of the assumptions used to value the warrants under the Black Scholes Merton valuation model:

Fair value of underlying common	\$	1.06 to 1.12
Exercise price	\$	0.85
Term		12 to 21 months
Historical volatility		161.4% to 163.7%
Risk free interest rate		0.82% to 1.16%
Dividend rate		0 %

Options

In April 2016, the Company issued to a consultant an option to acquire 2 million shares of the Company's common stock. The option had an exercise price of \$0.40 per share with no stated expiration and vesting as follows: 1 million shares 30 days after issuance and the remaining 1 million shares 90 days after issuance. The Company estimated the exercise date as 3.5 years after issuance.

The Company used a black scholesmerton pricing model with the following assumptions to value the option grant at issuance and to revalue upon vesting:

Fair value of underlying common	\$	0.58 to 1.55
Exercise price	\$	0.40
Term		3.5 years
Historical volatility		161.8% to 217.2%
Risk free interest rate		0.58% to 1.22%
Dividend rate		0.00%

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A summary of the change in stock purchase options outstanding for the period ended June 30, 2017 and 2016 is as follows:

	Options Outstanding	Exercise Price	Weighted Average Grant Date Fair Value	Remaining Contractual Life (Years)
Balance – June 30, 2015	-	-	-	-
Options issued	2,000,000	\$0.40	\$0.52	See note above
Options expired	-	-	-	-
Options exercised	(500,000)	\$0.40	-	-
Balance – June 30, 2016	1,500,000	\$0.40	\$0.52	See note above
Options issued	-	-	-	-
Options expired	-	-	-	-
Options exercised	(1,000,000)			
Balance – June 30, 2017	500,000	\$0.40	\$0.52	See note above

GROW CONDOS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 9 – Capital Stock(cont'd)**

The following table shows information on our vested and unvested options outstanding during the year ended June 30, 2017 and 2016:

	Options	Exercise	Average	Contractual
	Outstanding	Price	Grant	Life
			Date	
			Fair	(Years)
			Value	
Balance – June 30, 2015, unvested	-	-	-	-
Options issued	2,000,000	\$0.40	\$0.52	See note above
Options vested	1,000,000	\$0.40	\$0.52	-
Options expired	-	-	-	-
Options exercised	(500,000)	\$0.40	\$0.52	-
Balance – June 30, 2016, unvested	1,000,000	\$0.40	\$0.52	See note above
Options issued	-	-	-	-
Options vested	1,000,000	\$0.40	\$0.52	-
Options expired	-	-	-	-
Options exercised	(1,000,000)	\$0.40	\$0.52	-
Balance – June 30, 2017, unvested	-	-	-	-

Options outstanding had intrinsic value as of June 30, 2017 of \$95,000.

Note 10 – Related Party Transactions

The Company is currently leasing units located in Eagle Point Oregon. The building is an approximately 15,000square footbuilding which has 10 units of approximately 1,500 square feet each available for use. Four units are currently under lease to three different unrelated companies. One unit is being used as the Grow Condos, Inc. offices, and five units are under lease to a company that the CEO of Grow Condos, Inc. controls. The agreement to the lease the 4 condo units with the company controlled by the CEO was entered into the owner prior to

its purchase by WCS in 2013. The lease term begins once the tenant improvements are completed and the premises are occupied and continues for a period of 36 months. Four unit lease terms began in the fiscal year ended June 30, 2016, with cash payments commencing on all four unit leases in the fiscal year ended June 30, 2017.

The CEO had loaned the Company a net amount of \$15,575 the entire amount was re-paid on December 7, 2016. As of June 30, 2017, a related party had advanced the Company, on an unsecured basis, \$100,000.

In November 2015, the Company entered into employment agreements with its CEO and CFO. Those employment agreements granted the employees gross annual wages in the amount of \$250,000 and \$150,000, respectively.

Note 11 – Income Taxes

The income tax expense (benefit) consisted of the following for the fiscal year ended June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016
Total current	\$ -	\$ -
Total deferred	-	-
	\$ -	\$ -

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.

GROW CONDOS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 11 – Income Taxes (cont'd)**

The following is a reconciliation of the expected statutory federal income tax provision to the actual income tax benefit for the fiscal year ended June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016
Expected benefit at federal statutory rate	\$ 549,000	10,131,000
Non-deductible expenses	(156,000)	(9,826,000)
Change in valuation allowance	(393,000)	(305,000)
	\$ -	\$ -

In the table above, the expected tax benefit is calculated at statutory rate of 34% for amounts for the fiscal year ended June 30, 2017 and 2016.

Significant components of the Company's deferred tax assets and liabilities were as follows for the fiscal year ended June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016
Deferred tax assets:		
Net operating loss carryforwards	\$ 2,930,000	\$ 3,298,000
Deferred payroll	139,000	100,000
Impairments	103,000	96,000
Total deferred tax assets	3,172,000	3,494,000
Deferred tax liabilities		
Deferred revenue	(7,000)	(7,000)
Total deferred tax liabilities	(7,000)	(7,000)
Change in effective tax rates	715,000	-

Net deferred tax assets	3,165,000	3,487,000
Less valuation allowance	(3,165,000)	(3,487,000)
Net deferred tax assets (liabilities)	\$ -	\$ -

For the fiscal year ended June 30, 2016, the amounts in the table above were calculated using a 34% statutory rate. For the fiscal year ended June 30, 2017, the amounts in the table above were calculated using a 27% statutory rate, which reflects the change in rates based on passage of tax reform by the United States Congress in January 2018. At June 30, 2017, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$10.2 million and \$2.7 million, respectively. The federal and state net operating loss carryforwards will expire beginning in 2021 for federal purposes. In the fiscal year ended June 30, 2017, due to the issuance of and then conversion of the Series A Preferred Shares into common shares of the Company, the use of the net operating loss carryforwards incurred prior to December 2015 became subject to the limitations of a change in control of the Company in accordance with Internal Revenue Code section 382. As of the time of these financial statements, the Company has not performed the valuation required to determine the extent of the limitation on the net operating loss carryforwards for its US Federal income taxes.

During the fiscal year ended June 30, 2017 and 2016 the, 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.

GROW CONDOS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Commitments and Contingencies

In 2013, WCS entered into multi-year option contracts with certain tenants of the Eagle Point condominium units. The option contracts gave the tenants the right to enter into a contract for the sale of the unit being rented by the tenant. As part of the option, the tenant is required to make a monthly or quarterly payment to the Company over the term of the agreement and in exchange, the tenant has the right to purchase the unit for a price as determined in the contract. Contract unit pricing ranges from a fixed \$100,000 per unit to \$150,000 multiplied by the usable space divided by the surveyed total condominium land area. The amounts paid on a monthly or quarterly basis are applied as downpayments for the purchase of the unit if elected by the contract holder. In the event of non-payment or expiration of the contract without the option being exercised, any and all payments held by the Company are forfeit by the optionee. As of June 30, 2017 and 2016, the Company held payments of \$47,400 and \$15,400 respectively. During the fiscal years ended June 30, 2017 and 2016, the Company received payments under option contracts of \$26,000 and \$nil from related parties. In the fiscal year ended June 30, 2016, one optionee defaulted on his contract and the Company recorded a gain on cancellation of \$12,000 in its statement of operations.

Note 13- Subsequent Event

Subsequent to June 30, 2017, a member of the board of directors of the Company has made unsecured advances to the Company in the amount of \$45,000.

Subsequent to June 30, 2017 the Company issued a total of 44,010,791 shares of common stock upon conversion of the principal and unpaid interest accrued on its convertible notes (see Note 8) and issued a total of 13,870,692 shares of common stock to members of the Board, employees and consultants for compensation.

In the fourth quarter of 2017, the Company engaged a broker and listed the parcel of land purchased in March 2017 (see Note 4) for sale. The Company has listed the property for \$399,000.

In April 2018, the Company sold 500,000 shares of its common stock to a director for cash in the amount of \$20,000.

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

On October 17, 2016, the Company dismissed its existing auditor, John Scudato, CPA, Certified Public Accountants ("Scudato") from its position as the Company's independent registered public accounting firm. The Company's Board of Directors approved the dismissal.

The Company originally engaged Scudato to serve as its independent registered public accounting firm in or about September 2015. The audit report of Scudato on the Company's financial statements for the year ended June 30, 2016 did not contain an adverse opinion or disclaimer of opinion, however it did contain a qualification describing a going concern uncertainty. Scudato did not, during the applicable periods, advise the Company of any of the enumerated items described in Item 304(a)(1)(iv) of Regulation S-K.

Concurrently, the Company engaged Anthony Imbimbo, CPA and Associates ("Imbimbo") as its new independent accountants on October 17, 2016. Prior to October 17, 2016, the Company had not consulted with Imbimbo regarding (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, and no written report or oral advice was provided to the Company by Imbimbo concluding there was an important factor to be considered by the Company in reaching a decision as to an accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K, or a reportable event, as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

On December 22, 2016, the Company was advised by the staff of the Securities and Exchange Commission that on December 20, 2016 the Public Company Accounting Oversight Board issued Release No. 105-2016-054 wherein it barred Scudato from acting as independent auditor for public companies. This event required our June 30, 2016 year-end financial statements to be re-audited. During the first quarter of fiscal 2017 the Company dismissed Imbimbo. Imbimbo had not issued any reports for the Company and the Company's Board of Directors approved the dismissal.

On March 9, 2017, the Company engaged L J Solding Associates LLC ("Solding") as the Company's new independent registered public accounting firm. The engagement was approved by the Audit Committee. During the fiscal years ended June 30, 2016 and 2015 and through the date of the appointment, neither the Company nor anyone acting on its behalf consulted Solding with respect to (i) the application of accounting principles to a specified transaction, either completed or proposed, nor the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report was provided to the Company nor oral advice provided that Solding concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was the subject of a disagreement or a "reportable event" as described in Items 304(a)(1)(iv) and (v), respectively, of Regulation S-K.

ITEM 9A: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We intend to maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to our management, including our Chief Executive Officer ("Principal Executive Officer") and our Chief Financial Officer ("Principal Financial Officer"), as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Principal Executive and Financial Officers, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act). Based on this evaluation, our Principal Executive and Financial Officer concluded that, as of June 30, 2017, our disclosure controls and procedures were not effective, for the

reasons discussed below, to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Principal Executive and Financial Officers, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Due to 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 due to changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Principal Executive and Financial Officers, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework* (2013). In connection with our evaluation, we identified a material weakness in our internal control over financial reporting as of June 30, 2017.

A material weakness is a deficiency, or combination of deficiencies, that creates a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected in a timely manner. The material weakness related to our company was due to not having the adequate personnel to address the reporting requirements of a public company and to fully analyze and account for our transactions. We do not believe that this material weakness has resulted in deficient financial reporting because we have worked through the year end close process performing additional review and analysis to assure compliance with accounting principles generally accepted in the United States ("GAAP") and SEC reporting requirements.

Accordingly, while we identified a material weakness in our system of internal control over financial reporting as of June 30, 2017, we believe that we have taken reasonable steps to ascertain that the financial information contained in this report is in accordance with GAAP. We are committed to remediating the control deficiencies that constitute the material weaknesses by implementing changes to our internal control over financial reporting. Management is responsible for implementing changes and improvements in the internal control over financial reporting and for remediating the control deficiencies that gave rise to the material weaknesses.

We plan to implement measures to remediate the underlying causes of the control deficiencies that gave rise to the material weaknesses through additional training efforts as well as ensuring appropriate review of the related significant accounting policies by the members of management with the requisite level of knowledge, experience and training to appropriately apply GAAP. We plan to undertake additional review processes to ensure the related significant accounting policies are implemented and applied properly on a consistent basis throughout the Company. We believe these measures will remediate the control deficiencies. However, we have not completed all of the corrective processes, procedures and related evaluation or remediation that we believe are necessary. As we continue to evaluate and work to remediate the control deficiencies that gave rise to the material weaknesses, we may determine to take additional measures to address the control deficiencies.

This Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Our management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

None.

ITEM 9B: OTHER INFORMATION

None

PART III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

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- (9) Includes 20,000 shares issuable upon the exercise of options which are currently exercisable or will become exercisable by May 8, 2010, the date 60 days after March 9, 2010.
- (10) Includes 17,222 shares issuable upon the exercise of options which are currently exercisable or will become exercisable by May 8, 2010, the date 60 days after March 9, 2010.
- (11) Includes 134,312 shares issuable upon the exercise of options which are currently exercisable or will become exercisable by May 8, 2010, the date 60 days after March 9, 2010.
- (12) Includes 49,560 shares issuable upon the exercise of options which are currently exercisable or will become exercisable by May 8, 2010, the date 60 days after March 9, 2010.
- (13) Includes 29,856 shares issuable upon the exercise of options which are currently exercisable or will become exercisable by May 8, 2010, the date 60 days after March 9, 2010.
- (14) Includes 29,337 shares issuable upon the exercise of options which are currently exercisable or will become exercisable by May 8, 2010, the date 60 days after March 9, 2010.
- (15) Consists of all shares beneficially owned by our directors and executive officers who served in that capacity as of March 9, 2010. Includes 335,842 shares issuable upon the exercise of options which are currently exercisable or will become exercisable by May 8, 2010, the date 60 days after March 9, 2010.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Independence

In March 2010, the Board, based on the recommendation of our Nominating and Governance Committee, determined that each of the directors listed below, representing a majority of the Board, is an independent director under Rule 5605(a)(2) of the Nasdaq Marketplace rules for listed companies.

Independent Directors

Brad Goodwin

Hoyoung Huh, M.D., Ph.D.

Gary Lyons

David R. Parkinson, M.D.

Kurt von Emster

The Board, based on the recommendation of our Nominating and Governance Committee, also determined that each member of our Audit, Compensation and Nominating and Governance Committees was independent during 2009, and is currently independent, under Nasdaq's Marketplace rules for listed companies.

Certain Relationships and Related Person Transactions

In 2009 we were not a party to any transaction in which the amount involved exceeds \$120,000 and in which any of our directors or executive officers or any other related person had or will have a direct or indirect material interest, other than the compensation paid to our executive officers with respect to their employment relationship with us and compensation paid to our non-employee directors for their service as members of the Board, which compensation is disclosed herein. All other relationships previously considered by the Audit Committee were not deemed material.

The Company and Trubion Pharmaceuticals, Inc. ("*Trubion*") are in the process of negotiating an agreement with Nodality pursuant to which the Company, Trubion and Nodality would collaborate in the application of certain of Nodality's technology to the TRU-016 product, which the Company and Trubion are co-developing. Trubion would reimburse Nodality for certain out-of-pocket and personnel costs under the agreement. The Company expects that the aggregate cost of currently planned work under the agreement with Nodality would be approximately \$250,000, 50% of which the Company would reimburse Trubion pursuant to the terms of the Company's collaboration agreement with Trubion. David Parkinson, M.D., Ph.D., is a member of our Board and is the President and Chief Executive Officer and a member of the Board of Directors of Nodality. Although we have reviewed with our Audit Committee the possibility of our entering into this agreement with Nodality and the general terms and conditions of this potential agreement, our Audit Committee has not yet formally assessed (1) the materiality of any direct or indirect interest of Dr. Parkinson in the planned agreement among the Company, Trubion and Nodality or (2) the approximate dollar value of the amount of the Dr. Parkinson's interest, if any, in the transaction.

Our Audit Committee is responsible for reviewing and approving all related person transactions, including transactions with executive officers and directors, for potential conflicts of interests or potential improprieties. Under SEC rules, related person transactions are those transactions to which we are or may be a party to in which the amount involved exceeds \$120,000, and in which any of our directors or executive officers or any other related person had or will have a direct or indirect material interest, excluding, among other things, compensation arrangements with respect to employment and

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Board membership. Our Audit Committee would approve a related person transaction if it determined that the transaction is in our best interests.

Our directors are required to disclose in an executive session of the Board any potential conflict of interest, or personal interest in a transaction that the Board is considering. Our executive officers are required to disclose any related person transaction to our Compliance Officer who would notify the Audit Committee of the transaction. We also poll our directors on a quarterly basis with respect to related person transactions and their service as an officer or director of other entities.

Any director involved in a related person transaction that is being reviewed or approved must recuse himself or herself from participation in any related deliberation or decision. Whenever possible, the transaction should be approved in advance and if not approved in advance, must be submitted for ratification promptly after.

We have not yet adopted written policies and procedures regarding the review and approval or ratification of related-person transactions that the Company would be required to disclose pursuant to Item 404 of Regulation S-K, other than the general proscriptions regarding conflicts of interest set forth in our Code of Business Conduct, which is applicable to all of our officers, directors, and employees.

Board Structure and Risk Oversight

The Board believes that separate individuals should, generally, hold the positions of Chairperson of the Board and Chief Executive Officer, and that the Chairperson should not be an employee of the Company. Since the Spin-off of the Company, the Chairperson of the Board has been an independent, non-employee member of the Board. The Chairperson of the Board is responsible for coordinating the Board's activities, including the scheduling of meetings and executive sessions of the non-employee directors and the relevant agenda items in each case (in consultation with the Chief Executive Officer as appropriate). The Board believes this leadership structure enhances the Board's oversight of and independence from our management, the ability of the Board to carry out its roles and responsibilities on behalf of our stockholders and our overall corporate governance.

The Board meets in executive session after each regular Board meeting to, among other things, assess management's reports to the Board, evaluate the strategic direction of the Company and consider the effectiveness of management and similar matters. The Chairperson customarily meets with the Chief Executive Officer after such independent sessions to communicate the independent directors' views on particular matters.

The Board has designated five committees to address particular areas of responsibility: the Audit, Compensation, Nominating and Governance, Scientific Review and Equity Grant Committees. The Board believes that this structure provides the Board with the opportunity to exercise independent review of the Company's results and to apply more directed oversight of specific functions through its committees.

The Board exercises its role in the oversight of risk management both directly and through its committees, in particular the Audit Committee. Our senior financial and accounting and legal personnel periodically report to the Audit Committee regarding material risks to our business, among other matters, including in connection with the preparation of periodic reports on Form 10-Q and 10-K, and the Audit Committee meets in executive sessions with representatives of our independent registered public accounting firm. The Board also is periodically apprised by our management of material risks to our business, and changes in material risks to our business, and considers these risks and the Company's efforts to address or mitigate these risks.

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The Board of Directors appointed Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009.

The following table sets forth the aggregate fees billed by Ernst & Young LLP for audit services rendered in connection with the consolidated financial statements and reports for 2008 and 2009 and for other services rendered related to fiscal 2008 and 2009 on behalf of us, as well as all out-of-pocket costs incurred in connection with these services, which have been billed to us:

Fee Category:	2008	% of Total	2009	% of Total
	(in thousands)			
Audit Fees(1)(2)(1)	\$ 1,059	99.9%	\$ 774	83.4%
Audit-Related Fees(3)			150	16.2%
Tax Fees(4)(3)				
All Other Fees(5)	2	0.1%	4	0.4%
Total Fees	\$ 1,061	100.0%	\$ 928	100.0%

- (1) Audit fees consist of fees billed for professional services rendered for the audits of our consolidated financial statements as of December 31, 2009, 2008, and 2007 and for each of the four years in the period ended December 31, 2009, the review of our consolidated financial statements for each of the quarterly periods in 2009 as well as those included in our Registration Statement on Form 10, and other services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings or engagements, except those not required by statute or regulation.
- (2) Approximately \$787,000 of the total Audit Fees billed by Ernst & Young LLP related to fiscal 2008 was paid for by PDL as the costs were incurred prior to the spin-off of Facet from PDL in December 2008.
- (3) Audit related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees." The \$150,000 in Audit-related fees incurred in 2009 related to the audit of certain carve-out financial statements for portions of our former commercial operations we agreed to prepare for the benefit of EKR Pharmaceuticals. We were fully reimbursed by EKR for all costs incurred in the preparation and audit of those financial statements, including all EY fees incurred.
- (4) Tax fees consist of tax compliance/preparation and other tax services. No such services were incurred in 2008 or 2009.
- (5) "All Other Fees" consists of fees for accounting literature subscription services.

Our Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit related services, tax services and other services. Our Audit Committee may delegate pre-approval authority to one or more of its members. During fiscal years 2008 and 2009, our Audit Committee pre-approved all of the services rendered.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a)
 (3) Index to Exhibits

Exhibit No.	Exhibit
24.1	Power of Attorney
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- (b)
 Exhibits

See Exhibits listed under Item 15(a)(3) above.

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SIGNATURES

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

FACET BIOTECH CORPORATION
(REGISTRANT)

By: /s/ FAHEEM HASNAIN

Faheem Hasnain
President and Chief Executive Officer
(Principal Executive Officer)

Date: April 19, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<p>/s/ FAHEEM HASNAIN</p> <p>_____ (Faheem Hasnain)</p>	<p>President and Chief Executive Officer (Principal Executive Officer)</p>	<p>April 19, 2010</p>
<p>/s/ ANDREW L. GUGGENHIME</p> <p>_____ (Andrew L. Guggenhime)</p>	<p>Senior Vice President and Chief Financial Officer (Principal Financial Officer)</p>	<p>April 19, 2010</p>
<p>/s/ HERB C. CROSS</p> <p>_____ (Herb C. Cross)</p>	<p>Vice President, Finance (Principal Accounting Officer)</p>	<p>April 19, 2010</p>
<p>*</p> <p>_____ (Bradford S. Goodwin)</p>	<p>Director</p>	<p>April 19, 2010</p>
<p>*</p> <p>_____ (Gary Lyons)</p>	<p>Director</p>	<p>April 19, 2010</p>
<p>*</p> <p>_____ (David R. Parkinson, M.D.)</p>	<p>Director</p>	<p>April 19, 2010</p>
<p>*</p> <p>_____ (Kurt von Emster)</p>	<p>Director</p>	<p>April 19, 2010</p>
<p>*</p> <p>_____ (Hoyoung Huh)</p>	<p>Director</p>	<p>April 19, 2010</p>

*By: /s/ ANDREW L. GUGGENHIME

Andrew L. Guggenime
Attorney-In-Fact