



Stem Holdings Announces Stock Purchase Agreement for US\$10 Million Strategic Investment

BOCA RATON, December 23, 2019 – Stem Holdings, Inc. (OTCQB: STMH CSE: STEM) (the “**Company**” or “**Stem**”), a leading vertically-integrated cannabis and hemp company with state-of-the-art cultivation, processing, extraction, retail, and distribution operations, is pleased to announce that it has entered into a stock purchase agreement with Attollo Capital Holdings A, LLC (the “**Purchaser**”) pursuant to which Stem will issue 11,764,706 shares of preferred stock of the Company (the “**Preferred Stock**”) at a purchase price of US\$0.85 per share of Preferred Stock (the “**Original Issue Price**”) for gross proceeds to the Company of approximately US\$10,000,000 (the “**Investment**”).

Closing of the Investment is expected to occur immediately following satisfaction of customary closing conditions.

The Investment will allow Stem to accelerate currently identified opportunities and provides additional capital to pursue opportunities to execute the Company’s growth strategy. Initial use of funds is expected to include:

- Expansion into a limited supply, Massachusetts cannabis market. Stem will establish retail stores across the state and sell its owned and partner award-winning brands.
- Increase Nevada production capacity and distribution, including expanding cultivation for Travis x James cannabis flower and pre-rolls, and expanding production for its edibles line through its licensing partnership with Gron.
- Launch production and national distribution of customized medically-directed CBD products under the Apex licensing partnership, beginning with Hi-Tec® and Everyday California® brands.

“We are pleased to enter into this agreement with Attollo Capital as their investment allows Stem to expand into Massachusetts, increase production capacity and distribution of our Travis x James brand in Nevada, launch Stem branded CBD stores and launch production and national distribution of medically-directed CBD products through our partnership with Apex Brands,” said Adam Berk, Chief Executive Officer of Stem. “Stem is in a position to deliver on our mission of creating world-class consumer products that promote well-being as we build and expand our portfolio of premium cannabis brands across our THC and CBD platforms. We are committed to building shareholder value by leveraging our expertise and scale to drive growth domestically and internationally.”

“Stem is a unique and diversified company within the cannabis and CBD hemp space, and we are excited to make this equity investment to support the Company’s growth and expansion,” said Stuart Sugarman, Chief Executive Officer of Attollo Capital. “The landscape of the Cannabis Industry is in its infancy. The opportunities ahead to effect several industries are large. Stem led by Mr. Adam Berk is positioned to be one of the market leaders. We believe Stem has a very bright future for years to come.”

The Preferred Stock shall accrue dividends at an annual rate of 6% (the “**Accruing Dividends**”) and shall be payable in kind through the issuance of additional shares of Preferred Stock at the Original Issue Price.

Each share of Preferred Stock (including shares issued on account of Accruing Dividends) is convertible, at any time and at the option of the Purchaser, into one share of common stock of the Company (a “**Common Share**”), subject to certain customary adjustments (the “**Conversion Rate**”), prior to the fifth anniversary of the Closing Date (as defined herein). On the fifth anniversary of the Closing Date, each share of Preferred Stock shall be automatically converted into Common Shares at the Conversion Rate, without further action on the part of the Company or the Purchaser.

At any time after the first anniversary of the Closing Date, the Company shall have the right to redeem any and all shares of Preferred Stock for an amount equal to the Original Issue Price per share of Preferred Stock, plus any Accruing Dividends accrued but unpaid thereon.

The holder of the shares of Preferred Stock shall be entitled to cast that number of votes calculated as if the shares of Preferred Stock had been converted into Common Shares based on the Conversion Rate then in effect.

Upon closing of the Investment, the Purchaser and the Company will enter into an investor rights agreement pursuant to which: (i) the Purchaser will be entitled to designate one nominee for election to the board of directors of the Company at the next annual meeting of stockholders of the Company and two nominees for election to the board of directors of the Company at the annual meeting of stockholders of the Company to be held following the fiscal year ended September 30, 2020; (ii) the Purchaser will be granted a right of first offer to purchase additional issuances of preferred stock up to its pro rata share; and (iii) the Purchaser will be granted limited approval rights, including, in respect of the issuance of securities with rights superior or on parity with the shares of Preferred Stock, the payment of dividends on the Common Shares, any amendments to the Company’s documents and any proposed liquidation, dissolution, sale or merger of the Company.

About Stem Holdings Inc.

As a vertically-integrated cannabis company, Stem is as a pioneer in the industry with its state-of-the-art cultivation, processing, extraction, retail, and distribution operations. Stem owns cannabis facilities in California, Nevada, Oklahoma, and Oregon and hemp facilities in Pennsylvania and New York and also participates in a research project in collaboration with Cornell University. Utilizing proprietary, sustainable cultivation techniques, Stem develops exceptional products that are safe and consist of lab-tested cannabis and CBD. Stem’s owned and partner consumer brands are award-winning and nationally known including cultivators TJ’s Gardens® and Yerba Buena®; retail banners Stem and TJ’s; infused product manufacturers, Cannavore™ and Supernatural Honey™; and a new CBD company, Dose-ology™. Stem’s mission in supporting the health and happiness of people and the safety of our planet is evident through the Company’s continued recognition for its community involvement, employee diversification, and as a top place to work in cannabis, as well as dedication to environmental causes and outstanding leadership in the cannabis industry.

Cautionary Note Regarding Forward-Looking Information

This press release contains statements which constitute “forward-looking information” within the meaning of applicable securities laws, including statements regarding the plans, intentions, beliefs and current expectations of the management of Stem with respect to future business activities. Forward-looking information is often identified by the words “may”, “would”, “could”, “should”, “will”, “intend”, “plan”, “anticipate”, “believe”, “estimate”, “expect” or similar expressions and include, without limitation, information regarding: (i) the terms of the Investment; (ii) the expected closing date of the Investment and the timing thereof; and (iii) the proposed use of proceeds of the Investment.

Investors are cautioned that forward-looking information is not based on historical facts but instead reflects the management of Stem’s expectations, estimates or projections concerning future results or events based on the opinions, assumptions and estimates of management considered reasonable at the date the statements are made. Although Stem believes that the expectations reflected in such forward-looking information are reasonable, such information involves risks and uncertainties, and undue reliance should

not be placed on such information, as unknown or unpredictable factors could have material adverse effects on future results, performance or achievements of the Company. Among the key factors that could cause actual results to differ materially from those projected in the forward-looking information are the following: changes in general economic, business and political conditions, including changes in the financial markets; adverse changes in the public perception of cannabis; decreases in the prevailing prices for cannabis and cannabis products in the markets that the Company operates in; adverse changes in applicable laws; or adverse changes in the application or enforcement of current laws, including those related to taxation; the inability to locate and acquire suitable companies, properties and assets necessary to execute on the Company's business plans; and increasing costs of compliance with extensive government regulation. This forward-looking information may be affected by risks and uncertainties in the business of Stem and market conditions.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking information prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. Although Stem has attempted to identify important risks, uncertainties and factors which could cause actual results to differ materially, there may be others that cause results not to be as anticipated, estimated or intended. Stem does not intend, and does not assume any obligation, to update this forward-looking information except as otherwise required by applicable law.

No securities regulatory authority has in any way passed upon the merits of the proposed transactions described in this news release or has approved or disapproved of the contents of this news release.

For further information, please contact:

Media Contact:

Mauria Betts

Director of Branding and Public Relations

(971) 266-1908

mauria@stemholdings.com

Investor Relations:

John Mills

ICR, LLC

(646) 277-1254

john.mills@ICRinc.com