Stem Holdings Announces Divestiture of E-Commerce and Delivery Operations and Management Changes

Divestiture of Driven Deliveries, Inc. and its subsidiaries will immediately return 12.5 million shares to treasury, reduce total liabilities by $7.1 million, and increase working capital by $4.1 million

Total expenses will be reduced by $9.6 million annually, positioning the Company to achieve a positive Adjusted EBITDA in CY 2022

Company will focus all resources on high-growth, high-margin vertically integrated cultivation, processing and retail operations in California and Oregon

Adam Berk has resigned as CEO and Steve Hubbard, co-founder and current CFO, has been appointed interim CEO

BOCA RATON, FL, December 17, 2021 -- Stem Holdings, Inc. (OTCQX: STMH) (CSE: STEM) (the "**Company**" or "**Stem**"), a vertically integrated cannabis operator, today announced the divestiture of its wholly owned subsidiary Driven Deliveries, Inc. ("**Driven Deliveries**"), its subsidiaries and its assets and liabilities to Driven Deliveries' founders in return for 12.5 million shares of Stem. The Company has also announced the appointment of Steve Hubbard, co-founder and current CFO, as interim CEO, replacing Adam Berk who has resigned and will remain part of the team as an advisor during this transition.

This divestiture will immediately improve the Company's balance sheet and cost structure. Driven Deliveries currently accounts for 32.3% of the total liabilities reported on the consolidated balance sheet as of 12/15/2021. Divesting this asset will return 12.5 million shares of Stem to treasury, reduce total liabilities by $7.1 million and increase working capital by $4.1 million. Monthly expenses related to Driven Deliveries will reduce total expenses by $9.6 million annually, positioning the Company to achieve a positive Adjusted EBITDA in 2022.

Steve Hubbard, Interim CEO of Stem, commented, "After careful consideration with the Board, we have made the strategic decision to divest and discontinue operations of Driven Deliveries for several reasons. First, the delivery and e-commerce cannabis business in California has become increasingly more challenging due to oversupply in the market, which has reduced price per pound approximately 50%. More competition in California has also increased marketing expenses, which has resulted in low margin deliveries consistently. This divestiture will dramatically reduce our monthly expenses and improve our balance sheet, putting the Company is a much healthier financial position to focus all of our resources on cultivation, processing, retail and our award-winning brands in California, Oregon and new markets."

Mr. Hubbard continued, "I want to thank Adam for his leadership and close partnership we had during our time at Stem together. As co-founder and CFO of Stem Holdings since 2017, I am proud of the vertically integrated operation we have built at Stem within the cannabis industry. I continue to see a tremendous amount of opportunity in the cannabis space to build leading product and retail brands such as TJ's Gardens, TravisxJames, Yerba Buena, Artifact Extract and Cannavore. With the majority of our assets located in the Pacific Northwest, where I am based, I look forward to leading my locally based team in 2022."

Adam Berk commented, "I want to thank the entire Stem team for their support during my time as Chairman and CEO. Steve understands the business as well as anyone and I have full confidence in his ability to lead the Company going forward. As a shareholder and advisor, I will continue to support the Company during this transition."
All references to "$" are to United States dollars.

About Stem Holdings, Inc.
Stem Holdings is a vertically-integrated cannabis branded products company with state-of-the-art cultivation, processing, extraction, retail, and distribution operations throughout the United States. Stem's family of award-winning brands includes TJ's Gardens ™, TravisxJames™ , and Yerba Buena™ flower and extracts; Cannavore™ edible confections; and Doseology™ , a CBD mass-market brand launching in late 2021.

Forward-Looking Statements
This news release contains forward-looking statements and information (collectively, "forward-looking statements") within the meaning of applicable Canadian securities laws. Forward-looking statements are statements and information that are not historical facts but instead include financial projections and estimates, statements regarding plans, goals, objectives, intentions and expectations with respect to the future business, operations, expected financial position as a result of the divestiture of Driven Deliveries, and phrases containing words such as "ongoing", "estimates", "expects", or the negative thereof or any other variations thereon or comparable terminology referring to future events or results, or that events or conditions "will", "may", "could", or "should" occur or be achieved, or comparable terminology referring to future events or results. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, political risks, uncertainties relating to the availability and costs of financing needed in the future, changes in equity markets, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and the other risks involved in the mineral exploration and development industry. Forward-looking statements are subject to significant risks and uncertainties, and other factors that could cause actual results to differ materially from expected results. Readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Company assumes no responsibility to update them or revise them to reflect new events or circumstances other than as required by law.

Non-GAAP Measures
This news release contains references to certain measures that are not defined under a body of generally accepted accounting principles for publicly accountable entities in the United States , which is commonly referred to as "GAAP" or "U.S. GAAP". For this purpose, a non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. These non-GAAP measures are not recognized measures under GAAP, do not have a standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement GAAP measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in

isolation nor as a substitute for analysis of the Company's financial information reported under U.S. GAAP.

The Company uses non-GAAP measures, including Adjusted EBITDA to provide investors with supplemental measures of its operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on GAAP measures. The Company believes that investors, securities analysts and other interested parties frequently use non-GAAP measures in the evaluation of issuers. Management also uses non-GAAP measures in order to facilitate operating performance comparisons from period to period and assess the Company's ability to meet its future debt service, capital expenditure and working capital requirements.

The term "Adjusted EBITDA" consists of net (loss) income and excludes interest, taxes, depreciation, amortization, share-based compensation, impairment of assets, acquisition costs, legal settlement costs, restructuring charges, and adjustments for fair value of biological assets, warrant liabilities, and stock appreciation rights. The most directly comparable measure to adjusted EBITDA calculated in accordance with GAAP is net (loss) income.

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