

STEM HOLDINGS, INC AND HEADWATERS, LLC SIGN TERM SHEET FOR A BUSINESS COMBINATION

2022 Consolidated Business Combination Revenue of ~\$75,000,000 and Positive Adjusted EBITDA

2023 Consolidated Forecasted Revenue of \$100,000,000 and Positive Adjusted EBITDA

January 31, 2023 – Boca Raton, Florida: Stem Holdings, Inc. (OTCQB: STMH, CSE: STEM) (“Stem” or the “Company”) is pleased to announce that it has executed a term sheet (“**Term Sheet**”) for a proposed business combination (the “**Transaction**”) with Headwaters, LLC, (“**HDWTR**” or “**Headwaters**”). Pursuant to the Term Sheet, the Transaction will result in a reverse takeover of the Company and, subject to the satisfaction of all listing conditions, the listing of the combined entity on the Canadian Securities Exchange (the “**CSE**”) and the OTCQB Venture. Following the closing of the Transaction, it is expected that the former equity holders of HDWTR will own approximately 80% of the issued and outstanding shares of the Company.

The Transaction is subject to, among other matters, the execution of a mutually agreeable definitive agreement (the “**Definitive Agreement**”), completion of due diligence and subject to several conditions including, but not limited to, stockholder approval, delivery of acceptable financial statements, board of directors’ approval and satisfaction of all regulatory and stock exchange approvals. The Transaction is expected to be completed by way of an amalgamation, merger or other form of business combination to be determined by the parties following receipt of securities, corporate and tax law advice.

“Over the past 12 months, Stem has worked tirelessly to find the right company to transact a business combination with. We could not be more excited about combining forces with Headwaters, LLC,” said Matthew Cohen, Chief Executive Officer of Stem. “Not only will this transaction bring world-renowned cultivation processes, but by combining with Stem and our existing footprint of brands and retail locations, we instantly become a pre-eminent vertically integrated and profitable cannabis company with a new platform and a vision to bolster on even more accretive transactions in the future.”

“Currently, Headwaters, located in California is a leading greenhouse cultivator, wholesale and distributor, with an emergent brand called Mr. Zips. We’re ready to grow our business to the next level, and the Stem team enables us to do just that. With access to capital markets and Stem’s valuable network, Headwaters is well positioned to continue disrupting the world’s largest cannabis market and to expand into new territories. We couldn’t think of a better partner to help us achieve our goal of maintaining and continue to be one of California’s largest and most profitable cultivation companies,” said Tristan Strauss, Founder and CEO of Headwaters.

About Stem Holdings:

Stem is a leading cannabis and hemp branded products company in the U.S. with proprietary capabilities in sustainable cultivation, processing, extraction, and R&D, as well as retail and distribution operations

aligned with state-by-state regulations. Stem's award-winning owned and partner-brands including TJ's Gardens™ and Yerba Buena™ are the foundation of the Company's expansion within current as well as new segments and markets, with exceptional and disruptive brands, and products that benefit well-being. Stem's expertise and scale will drive growth domestically and internationally with a continuing commitment to social responsibility and shareholder equity as a leader in the cannabis industry.

About Headwaters:

Headwaters' origin story is humble and authentic, born a decade ago in Humboldt County as a small outdoor medical farm. Despite its small beginnings, Headwaters' vision is predicated on executing across core values of community, sustainability, and operational excellence. Headwaters owes the entirety of its success to our team and leadership's dedication to these values.

Over the past five years the business has experienced rapid growth in highly volatile market conditions. Headwaters ventured into consumer products in 2017 by supplying the first white label products on California's largest e-commerce delivery platform. Two years later the company launched a novel comprehensive partnership program that supported farmers up and down the state with nursery, cultivation management, post-harvest processing, and distribution services. Since then, Headwaters has been widening its intellectual property moat through genetic selection, SOP optimization, and development of its proprietary technology, Cultivation Grid©. Headwaters it is well positioned to operate at scale efficiently and effectively.

- Headquartered in Carpinteria, CA
- Chief Executive Officer and Founder Tristan Strauss is a proven leader in horticultural agriculture and cannabis business. Mr. Strauss co-founded two California medical cannabis companies previously: Canigou Inc. and Helios, both known as the brand, State Wellness.
- Operates four greenhouses in the Carpinteria area totaling over 23 acres of production and nursery canopy
- Company has 4 distinct sales channels:
 - Bulk Wholesale: Sourcing and selling of cannabis flower, smalls, trim, and derivative products in bulk format
 - Agricultural Services: Selling of clones propagated and rooted from proprietary genetics and partnerships
 - Branded Products: Development and sale of CPG products into licensed retail channels
 - Technology Services: Proprietary IP for cultivation and post-harvest processing
- Sold 230,000 pounds of bulk cannabis and 1,700,000 clones in 2021

Reader Advisory

Completion of the Transaction is subject to a number of conditions, including but not limited to CSE acceptance. There can be no assurance that the Transaction will be completed as proposed or at all. The CSE has in no way passed upon the merits of the proposed Transaction and has neither approved nor disapproved the contents of this press release.

Cautionary Note Regarding Forward-Looking Information

This press release contains statements that 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 includes information regarding: (i) the ability of the surviving entity to integrate the combined operations of the parties; (ii) the closing of the Transaction, together with expectations around the accretive nature of the Transaction; (iii) the expansion of the surviving entity’s market following the closing of the Transaction and the ability to scale operations; (iv) the expected cost savings and other efficiencies following the closing of the Transaction; and (v) the forecasted revenue and EBITDA of the combined company. Investors are cautioned that forward-looking information is not based on historical facts but instead reflects the management of the Company’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 the Company 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 surviving entity. 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; the ability of the surviving entity to raise debt and equity capital in the amounts and at the costs that it expects; adverse changes in the public perception of cannabis; construction delays; decreases in the prevailing prices for cannabis and cannabis products in the markets that the surviving entity will maintain operations; adverse changes in applicable laws; 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 surviving entity’s business plans; political risk; and increasing costs of compliance with extensive government regulation. This forward-looking information may be affected by any number of risks and uncertainties affecting the business of the surviving entity and applicable 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 the parties to the Transaction have attempted to (and will continue efforts) 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. The Company 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.

Financial Outlook

This news release contains a financial outlook within the meaning of applicable securities laws. The financial outlook has been prepared by management of the Company to provide an outlook for the Company’s and Headwaters’ forecasted revenue and EBITDA and may not be appropriate for any other purpose. The financial outlook has been prepared based on a number of assumptions including the assumptions discussed under the heading “Cautionary Note Regarding Forward-Looking Statements”. The actual results of the Company’s operations for any period will likely vary from the amounts set forth in

these projections and such variations may be material. The Company and its management believe that the financial outlook has been prepared on a reasonable basis. However, because this information is highly subjective and subject to numerous risks, including the risks discussed under the heading "Cautionary Note Regarding Forward-Looking Statements", it should not be relied on as necessarily indicative of future results.