

Chalice Brands Ltd. Continues Sequential Revenue Growth

Reports Second Quarter 2021 Revenues of \$6.9 Million and Third Consecutive Quarter of Positive Adjusted EBITDA⁽¹⁾

PORTLAND, Ore., Aug. 26, 2021 (GLOBE NEWSWIRE) -- Chalice Brands Ltd. (CSE:CHAL) (OTCQB:CHALF) ("Chalice" or the "Company"), a premier consumer-driven cannabis company specializing in retail, production, processing, wholesale, and distribution, today announces its financial and operating results for the second quarter 2021. All amounts stated are in US dollars unless otherwise noted.

Second Quarter Highlights:

- Record quarterly revenues from continuing operations of \$6.9 million, a 26% year-over-year increase compared to \$5.5 million for the same period in 2020.
- Gross profit for second quarter 2021 of \$3.1M, or 45% gross margin, compared to \$1.3M or 23% gross margin in 2020. Gross margin improvements are due to an increased share of our vertical product growth and retail sales of our own Bald Peak flower.
- Continued the positive Adjusted EBITDA¹ trend of approximately \$250,000.
- On April 8, 2021, the Company announced its 80% acquisition of CBD skincare brand Fifth & Root with a national presence in over 400 retail outlets across the United States.
- A record 412 million shares were voted at the Company's annual general meeting held on May 10, 2021, with over 95% approving the Company's name change to Chalice Brands Ltd. along with the share consolidation effective as of May 25, 2021.
- On May 19, 2021, the Company closed the purchase of 100% ownership in Homegrown Oregon, a chain of five retail dispensaries located in Portland, Salem and Albany, Oregon, for total consideration of approximately US\$9.75 million.
- Retail store count in Oregon increased from 7 to 12. Chalice branded products in Homegrown have risen from 3% pre-acquisition to a high of 28% in August. In Chalice retail stores, Chalice branded products reached a high of over 50%.
- Enacted the consolidation of its common shares on the basis of one (1) post-consolidation common share for every twenty-three (23) pre-consolidation common shares effective as of May 25, 2021.
- Appointed Ginger Mollo as Chief Integration Officer of Chalice Brands, and General Manager of Fifth & Root; a nationally recognized CBD skincare brand based in California.

Jeff Yapp, President and Chief Executive Officer of Chalice Brands, commented, "Chalice is creating a strong foundation through our decision to prioritize the crawl-walk-run operating philosophy in our approach to investments for growth. We continue to make excellent progress in terms of executing our west coast U.S. strategy to achieve accelerated growth, and our record second quarter results reflect this. Chalice continues to generate strong organic growth due to brand recognition, disciplined capital allocation, and strategic acquisitions."

Fiscal Second Quarter Ended June 30, 2021 Financial Results

For the three months ended June 30, 2021 ("Q2 2021"), total revenue from continuing operations was \$6.9 million, as compared to \$5.5 million for the same period in 2020 ("Q2 2020"). Gross profit grew 131% year-over-year to \$3.1 million. Gross margin almost doubled from 23% in Q2 2020 to 45% in Q2 2021.

Adjusted EBITDA¹ was approximately \$250,000 for Q2 2021, compared with a loss of \$750,000 for Q2 2020, continuing the positive trend since fourth quarter 2020. This move to profitability was primarily driven by continued cost controls, increased contribution from Homegrown and increased vertical product contribution in both Chalice and Homegrown. The Company considers Adjusted EBITDA an important operational measure for the business and looks to grow this important metric as the business scales.

For the six months ended June 30, 2021, total revenue from continuing operations was \$12.4 million, as compared to \$10.2 million for the same period in 2020. The 22% year-over-year increase is strongly attributed to the accretive acquisition of Homegrown coupled with continued strength in retail tickets and traffic.

For the six months ended June 30, 2021, gross profit was \$5.1 million, or 45% compared to \$3.0 million or 30% for the same period in 2020 with the increase driven by contribution from Homegrown, increased vertical sales and increased third party revenues.

While revenue grew 22% during the period, operating expenses decreased 5% from \$6.3 million for the six months ended June

30, 2020 to \$6.0 million for the six months ended June 30, 2021.

The Company's interim financial statements for the second quarter 2021 and related MD&A have been filed on SEDAR and are available for review.

"Management has executed on our targeted high-level business objectives and are confident Chalice Brands will continue to position itself as a market leader in Oregon. In doing so, the Company is proud to have accomplished sequential revenue growth and profitable operations, as highlighted in this record second quarter performance. We look forward to executing on our conservative capital allocation to drive growth organically and through any opportunistic and accretive transactions for the remainder of the year," added John Varghese, Executive Chairman.

¹Adjusted EBITDA is defined by the Company as earnings before interest, taxes, depreciation and amortization, non-cash compensation expenses, non-recurring promotional and investor relations expenses, one-time transaction fees and other non-cash charges that include impairments, start-up costs and extraordinary operational curtailment charges and excluding fair value changes related to biological assets.

CHALICE BRANDS LTD.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

As at June 30, 2021 and December 31, 2020

(Expressed in U.S. dollars)

		June 30, 2021	December 31, 2020
CURRENT			
Cash		\$ 1,828,406	\$ 905,149
Accounts receivable	Note 5	236,424	108,308
Other receivables	Note 5	829,307	737,185
Notes receivable		919,488	919,488
Sales tax recoverable		78,948	89,033
Biological assets	Note 6	501,737	455,045
Inventory	Note 6	4,549,053	2,304,501
Prepaid expenses and deposits		245,367	376,080
Total current assets		9,188,730	5,894,789
Property, plant and equipment	Note 7	2,533,751	2,361,357
Other receivables	Note 5	842,440	836,235
Right-of-use assets, net	Note 8	5,567,355	4,132,035
Intangible assets, net	Note 9	13,801,001	10,737,423
Goodwill	Note 9	13,398,793	4,056,172
Total assets		\$ 45,332,070	\$ 28,018,011
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 4,170,011	\$ 3,432,525
Income taxes payable		1,435,409	1,003,604
Deferred income tax payable		520,789	55,039
Sales tax payable		358,882	217,789
Current portion of long-term debt	Note 12	12,450	22,171
Notes payable - current portion	Note 12	214,677	119,533
Convertible debentures carried at fair value	Note 10	-	5,575,273
Consideration payable - cash portion	Note 12	72,712	-
Lease liability	Note 11	1,078,199	949,496
Total current liabilities		7,863,129	11,375,430
Notes payable	Note 12	1,829,906	-
Long-term debt	Note 12	50,764	134,675
Long-term lease liability	Note 11	5,582,873	4,372,395
Warrant liability	Note 13	4,005,041	-
Derivative liability	Note 10	448,883	-
Convertible debentures carried at amortized cost	Note 10	2,740,345	-
Consideration payable - cash portion	Note 12	2,239,056	1,824,533
Consideration payable - equity portion	Note 12	4,527,350	4,838,780

Total liabilities		29,287,347	22,545,813
EQUITY			
Share capital	Note 14	164,336,386	149,754,502
Warrant reserve	Note 15	204,484	1,079
Share option reserve	Note 16	3,874,825	4,070,474
Contributed surplus		2,329,997	2,329,997
Deficit		(155,097,230)	(150,683,854)
Equity attributable to shareholder of the Company		15,648,462	5,472,198
Equity attributable to noncontrolling interests		396,261	-
Total equity		\$ 45,332,070	\$ 28,018,011

CHALICE BRANDS LTD.

Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

For the three and six months ended June 30, 2021 and 2020

(Expressed in U.S. dollars)

		For the three months ended June 30,		For the six months ended June 30,	
		2021	2020	2021	2020
Revenues					
Product sales	Note 21	\$ 6,585,891	\$ 5,312,655	\$ 11,619,205	\$ 9,552,237
Royalty and other revenue	Note 21	342,810	204,078	804,951	634,800
Total Revenue		6,928,701	5,516,733	12,424,156	10,187,037
Inventory expensed to cost of sales	Note 6, 21	4,157,031	4,041,207	7,337,956	7,005,399
Gross margin, excluding fair value items		2,771,670	1,475,526	5,086,200	3,181,638
Fair value changes in biological assets included in inventory sold	Note 6, 21	46,720	(34,358)	(37,609)	(34,358)
(Gain) loss on changes in fair value of biological assets	Note 6, 21	(404,417)	216,870	(486,180)	196,156
Gross profit		3,129,367	1,293,014	5,609,989	3,019,840
Expenses:					
General and administration		2,743,969	2,190,871	4,877,986	4,499,030
Share-based compensation	Note 16	129,888	93,697	198,938	223,276
Sales and marketing		459,913	539,028	776,036	1,074,054
Depreciation and amortization	Note 8, 9	223,740	230,278	448,671	535,738
Total expenses		3,557,510	3,053,874	6,301,631	6,332,098
Loss before items noted below		(428,143)	(1,760,860)	(691,642)	(3,312,258)
Interest expense	Note 10,11,12	455,414	547,743	884,635	1,098,844
Transaction costs		51,920	41,051	86,540	41,051
Loss on disposal of assets	Note 7	6,233	310,017	6,233	317,839
Other (income) loss		3,647	(9,781)	88,113	(38,220)
(Gain) loss on change in fair value of warrant liabilities	Note 11	(1,689,283)	-	1,285,210	-
Loss on change in fair value of convertible debentures	Note 10	-	-	172,956	-
(Gain) loss on change in fair value of derivative liabilities	Note 10	(247,618)	-	374,259	-
Loss on debt extinguishment	Note 10	-	-	88,079	-
Income (loss) before income taxes		991,544	(2,649,890)	(3,677,667)	(4,731,772)
Current income tax expense		542,445	304,932	817,445	663,216
Net income (loss)		449,099	(2,954,822)	(4,495,112)	(5,394,988)

Other comprehensive loss

Items that will be reclassified subsequently to

profit or loss:				
Comprehensive loss attributable to noncontrolling interests	\$	(15,054)	\$	-
	\$	(15,054)	\$	-
Comprehensive income (loss)	\$	464,153	\$	(2,954,822)
	\$	(4,480,058)	\$	(5,394,988)
Basic and diluted income (loss) per share from continuing operations	\$	0.01	\$	(0.08)
	\$	(0.08)	\$	(0.14)
Weighted average number of common shares outstanding		57,956,291		37,469,164
				53,299,883
				37,427,844

Adjusted EBITDA				
	For the three months ended		For the six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Loss before income taxes	\$	991,544	\$	(2,649,890)
	\$	(3,677,667)	\$	(4,731,772)
Adjustments:				
(Gain)/Loss on fair value of biological assets	(404,417)	182,512	(486,180)	161,798
Depreciation and amortization	451,582	503,044	913,207	1,071,389
Fair value changes on debt and equity instruments	(1,936,901)	-	1,920,504	-
Share based compensation	129,888	93,697	198,938	223,276
Interest expense, net	455,414	547,743	884,635	1,098,844
Transaction costs	51,920	41,051	86,540	41,051
Start-up costs ⁽¹⁾	60,218	-	170,746	119,196
Nevada curtailment expenses and other ⁽²⁾	30,045	236,000	103,297	236,000
Non-cash non-recurring investor relations	88,027	-	88,027	-
Non-recurring promotional costs ⁽³⁾	297,443	-	297,443	-
Costs related to share consolidation and name change	26,442	-	26,442	-
Impairments and other	9,880	300,236	94,346	404,619
Adjusted EBITDA	\$	251,084	\$	(745,607)
	\$	620,278	\$	(1,375,599)

(1) Write-off of significant start up costs related to the Company's California business and Fifth & Root

(2) Losses experienced in Nevada due to unexpected shut down and facility abandonment due to COVID-19

(3) Promotional costs include non-recurring discounts and promotional campaigns

Q2 2021 Conference Call Details

Chalice Brands management, led by Mr. John Varghese, Executive Chairman, and Mr. Jeff Yapp, Chief Executive Officer, will hold a conference call for investors to discuss the results on Thursday, August 26, 2021 at 5:00 p.m. ET followed by a webinar for shareholders providing a corporate update and a summary of the second quarter.

REGISTRATION: Please visit [click here to register](#) and stream the conference call.

Once registered, registrants will receive an email for this event inclusive of a calendar invite and details on how to connect. A replay of the webcast will be available online at 7:30 p.m. ET on August 26, 2021, on the Company's website at investors.chalicebrandsltd.com where it will be archived for one year.

Chalice Brands Ltd.

Chalice Brands is a premier consumer-driven cannabis company specializing in production, processing, wholesale, distribution and retail, with twelve dispensaries in Portland, Oregon. The Company is committed to developing a dynamic portfolio built around the recognized brands of Chalice Farms, with a focus on health and wellness. Chalice operates nationally through Fifth and Root and has operations in Oregon and California. Visit investors.chalicebrandsltd.com for regular updates.

Investor Relations:

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Adjusted EBITDA Disclaimer: Adjusted EBITDA is defined by the Company as earnings before interest, taxes, depreciation, amortization, non-cash compensation expenses, non-recurring promotional and investor relations expenses, one-time transaction costs and other non-cash charges that include impairments. Adjusted EBITDA is a non-GAAP financial measure which does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. The Company considers this Adjusted EBITDA an important figure to show the true day to day operational picture of the business. It should not be considered in isolation as a substitute for measures of performance prepared in accordance with the IFRS.