

Chalice Brands Ltd. Issues Update Letter to Shareholders

PORTLAND, Ore., Feb. 16, 2022 -- Chalice Brands Ltd. (CSE:CHAL) (OTCQB:CHALF) (“Chalice” or the “Company”), a premier consumer-driven cannabis company specializing in retail, production, processing, wholesale, is pleased to provide a letter to its shareholders and corporate update from Jeff Yapp, President and Chief Executive Officer. The complete letter follows and can be accessed at www.investors.chalicebrandsltd.com.

“Dear Fellow Shareholders,

As we’ve embarked on a new year, John and I wanted to first and foremost thank you for the continued support. We are delighted with the progress we have made for the Company and the strategic objectives accomplished in 2021 to position Chalice for long-term growth. The foundation of the business is carrying strong momentum into 2022 and the team looks forward to accelerating our growth and executing on our goals.

As we have previously stated, since John and I joined the Company in 2019 our philosophy for Chalice has been to improve business fundamentals with discipline and transparency. Our often-repeated mantra within Chalice of ‘CRAWL, WALK, RUN’ has brought strategic focus and operational success for the business during a challenging year for U.S. cannabis multi-state operators. With volatility attributed to the uncertainty over key pieces of legislation, we remain encouraged the regulatory environment will improve this year and believe this is a key potential catalyst for the sector. We are really pleased to have accomplished our objectives set at the beginning of the year such as recapitalizing the balance sheet, changing the corporate name to Chalice, expanding our retail footprint, adding a next-generation ecommerce platform, and much more, despite operating through another difficult year.

I wanted to take a moment to reiterate some of the tremendous things that Chalice accomplished in 2021.

To summarize, here are the main points:

- In January, we completed an oversubscribed non-brokered private placement. The Company received total subscriptions for gross proceeds of C\$3,446,121.
- In April, the Company closed all tranches of its non-brokered private placement, previously announced on February 17, 2021. The Company received total subscriptions for gross proceeds of C\$10,375,154.
- The Company closed its purchase of majority ownership in Fifth & Root, Inc., a nationally recognized CBD skincare brand based in California adding a national distribution platform for Chalice Brands as well as tax advantages as a business not subject to 280E.
- Chalice proudly announced a 43% increase in recorded daily revenues and a 68% increase over two years ago on the same store footprint for the popular 4/20 cannabis holiday.
- In May, the Company reported first quarter revenues of \$5.5 million, a 18% year-over-year increase, and gross profit of \$2.5M or 45% gross margin.
- The Company purchased 100% ownership of Homegrown Oregon, a chain of five profitable retail dispensaries located in Portland, Salem and Albany, Oregon, for total consideration of approximately US\$9.75 million. At close, Homegrown has less than 5% of Chalice Branded products on its shelves.
- The Company 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 share and the change of its name from “Golden Leaf Holdings Ltd.” to “Chalice Brands Ltd.”.
- We appointed Scott Lawrence Secord, Managing Partner of Shore Capital Sports & Entertainment, to the Company’s Board of Directors and Richard Carl, former President and Chief Operating Officer of AGS Capital Corporation, as an Observer on the Board.
- In June, we appointed Ginger Mollo as Chief Integration Officer, Chalice, and General Manager of Fifth & Root.
- In August, the Company reported second quarter revenues of \$6.9 million, a 26% year-over-year increase, and gross profit of \$3.1M, or 45% gross margin.
- In September, we acquired four retail stores branded Cannabliss & Co. from Acreage Holdings, Inc., located in Portland, Eugene, and Springfield, Oregon for total consideration of US\$6.5 million (less US\$500,000 working capital surplus required to be left by the seller). We operate these stores under a management services agreement pending OLCC approval. Upon approval, we will be able to recognize the full economic benefits of Cannabliss.
- In October, we promoted Meghan Miller to Chief Operating Officer (COO) of Chalice Brands, to drive closer alignment between Chalice’s sales and production capabilities, ensuring the company delivers the highest quality of cannabis

products to better leverage growth opportunities in the future.

- In November, the Company reported third quarter revenues of \$8.0 million, a 29% year-over-year increase, and gross profit of \$3.6 million, a 63.7% increase in growth year-over-year for the same period in 2020. The company surpassed total fiscal 2020 revenue and gross profit after the third quarter and recorded four consecutive adjusted EBITDA positive quarters.
- During the fourth quarter, Homegrown carried 30% of Chalice branded products, providing margin lift and highlighting the virtues of our vertical integration strategy.
- The Company announced in November the closing of its brokered private placement of unsecured convertible debenture units and equity units, for gross proceeds of C\$5.7 million.
- In December, Chalice successfully completed an agreement to lease retail property located in Portland, Oregon from Aventine Property Group, Inc. for Chalice's new, state-of-the-art flagship superstore. The store is expected to enhance Chalice's brand portfolio while showcasing the Company's partners and promote the advancement of the cannabis community as a whole in Oregon. The store is expected to be operational at the start of H2 2022 and be equipped with an event and community space, an educational training center, delivery hub, and a product hub to support the Company's strategic growth initiative.
- Chalice's ambitious retail portfolio growth from seven to seventeen stores resulted in an over 140% increase in footprint in 2021. Vertical integration is a key strategic cornerstone that will continue to be rolled out into any state we enter.
- The Company completed its previously announced acquisition of the assets of Tozmoz, LLC, one of the first OLCC licensed processors in the state of Oregon.
- The Company's fourth quarter financial performance will demonstrate the continuation of our conservative capital allocation strategy to ensure Chalice is well positioned in a sustainable and profitable manner.
- The Company exited 2021 with sufficient cash on hand to support its growth. We expect to be able to service our 2022 debt obligations using cash on hand and cash flow generated from operations.

With a successful 2021 behind us, looking forward to 2022, we intend to continue to make headway through strategic acquisitions, expanding our brand portfolio, and the launch of our flagship superstore to position the Company for long-term growth while delivering the highest quality cannabis products and experiences. Our team remains committed to increasing shareholder value and improving our financial strength to continue the path of profitability we have set out for Chalice. We look forward to providing further updates and insight into our operational progress in the near term.

On behalf of the Chalice team, I want to thank again all our shareholders, partners, and customers who continually support us.

Yours sincerely,

Jeff Yapp
President and Chief Executive Officer"

About Chalice Brands Ltd.

Chalice Brands is a premier consumer-driven cannabis company specializing in production, processing, wholesale, distribution and retail, with twelve owned and four managed dispensaries in and around 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 & Root and has operations in Oregon and California. Visit investors.chalicebrandsltd.com for regular updates.

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