



Heritage Cannabis Reports 2021 Year-End Financial Results

Toronto, ON, May 11, 2022 – [Heritage Cannabis Holdings Corp.](#) (CSE: CANN) (OTCQX: HERTF) (“**Heritage**” or the “**Company**”), today announced its financial results as at and for the twelve months ended October 31, 2021 (“**FY 2021**”). All figures are in Canadian dollars unless otherwise noted.

“Heritage’s revenue grew over 100% for the year and almost 40% from Q3/21 to Q4/21, which was the higher end of the previously provided guidance. Our ability to facilitate this growth while integrating our acquisitions, expand our distribution and launch numerous new products including into the flower vertical is an outstanding result given the continued turbulence in the cannabis markets,” commented David Schwede, CEO of Heritage. “While our results were impacted by several one-time cost adjustments, we believe we have been able to make a number of improvements which we expect will allow us to show positive results in the coming quarters as we move to cash flow positive territory. The combination of our launch into both the flower and pre-roll categories combined with our incumbent product offering has created a very strong platform. We are building a strong and sustainable business in a nascent industry and with our solid business practices and product and brand innovations we are focused on positive cash flow as a priority.”

Selected Financial Highlights

Selected financial highlights for the three and twelve-month periods ended October 31, 2021 and 2020 include the following:

<i>(in \$CDN)</i>	Three-month periods ended		Years ended	
	Oct 31, 2021	Oct 31, 2020	Oct 31, 2021	Oct 31, 2020
	\$	\$	\$	\$
Gross revenue	7,132,942	1,500,750	18,676,958	9,257,070
Net revenue (net of excise tax)	4,649,025	1,429,973	14,059,130	8,256,435
Cost of sales	7,329,654	22,943	13,492,997	6,656,120
Gross margin	(2,680,629)	1,407,030	566,133	1,750,300
General and administrative expenses	(420,566)	785,459	18,474,262	8,244,186
Other expenses	(41,433,121)	(5,017,017)	(42,563,044)	(3,357,185)
Comprehensive loss	(42,685,990)	(4,745,405)	(57,685,532)	(8,596,759)

2021 Financial Highlights

- For the year ended October 31, 2021, the Company reported gross revenue of \$18,676,958, an increase of \$9,419,888 as compared to gross revenue of \$9,257,070 for the year ended October 31, 2020 representing an increase of over 100%. The increase in gross revenue was primarily the result of increased product launches and established product offerings across the provinces as a result of the Premium 5 acquisition. The launch

and continued demand for our RAD brand coupled with SKU expansion has been the driving factor for our revenue growth.

- Cost of sales for the year ended October 31, 2021, was \$13,492,997, an increase of \$6,836,877, compared to \$6,656,120 for the year ended October 31, 2020. Excluding the year-end adjustments in the current quarter, cost of sales declined to 63% of gross revenue compared to 103% of gross revenue for the same period ending October 31, 2020 after excluding the recovery of the accounts payable from a vendor. The improvement over the course of the year was due to strategic biomass purchasing, continued operational improvements and improved commercial strategies.
- For the year ended October 31, 2021, the Company recorded a comprehensive loss of \$57,685,532 or \$0.08 loss per share compared to a comprehensive loss of \$8,596,759 or \$0.02 per share for the year ended October 31, 2020. The increase in losses during these periods was attributable to three primary factors, all of which are non-cash related. In accordance with the accounting policies, the Company recorded an impairment of intangibles and goodwill of \$36,337,826, an unrealized loss on contingent consideration payable of \$3,514,865 as a result of year-end revaluation and a loss on debt extinguishment of \$1,361,338 as a result of the long-term debt facility extension. Also, the prior year was positively impacted by \$936,329 of government funding for COVID-19, which was recorded as a reduction of corresponding expenses.
- For the year ended October 31, 2021, the Company increased its total assets by \$14,356,257 to \$97,788,065 from \$83,431,808 for the year ended October 31, 2020. The increase was primarily driven by three primary factors, intangible assets and goodwill increasing by \$39,318,897 as a result of the Premium 5 acquisition, an increase in inventory of \$10,898,876 year over year as a result of stronger revenues and accounts receivable increasing by \$3,709,517 year over year in response to increased provincial sales. The increase was partially offset by an impairment of \$33,700,000 recognized on goodwill as a result of the Company's performance of its annual impairment test on goodwill and related cash generating unit at October 31, 2021.

Q4 2021 Financial Highlights

- The Company reported gross revenue of \$7,132,942 for the three-month period ended October 31, 2021, an increase of \$5,632,192 compared to the gross revenue of \$1,500,750 for the three-month period ended October 31, 2020 representing an increase of over 450%. The increase in gross revenue was due to the continued increasing orders from the provincial boards.
- Cost of sales for the three-month period ended October 31, 2021 was \$7,329,654, an increase of \$7,306,711, compared to \$22,943 for the three-month period ended October 31, 2020. The current quarter was negatively impacted by two primary factors, the first was a one-time event resulting from year-end adjusting entries as a result of a fair value increase in Premium 5 inventories resulting from the acquisition and inventories consumed during the year for \$1,153,034. The second factor was an increase in costing for the year of approximately \$600,000 which was applied to the quarter. The results for the three months ended October 31, 2020 were positively impacted by a recovery of accounts payable from a vendor of \$2,879,718. Excluding the recovery in 2020 and the year-end adjustments in the current period, cost of sales improved to 78% of gross revenue compared to 193% of gross revenue for the same period ending October 31, 2020. The improvement was a result of improved operational efficiency and product sales mix.

- For the three-month period ended October 31, 2021, the Company recorded a comprehensive loss of \$42,685,990 or \$0.06 loss per share compared to a comprehensive loss of \$4,745,405 or \$0.01 loss per share for the three-month period ended October 31, 2020. The increase in losses during this period was attributable to the above mentioned three primary factors, all of which are non-cash related.

Q4 2021 Growth, Operational, and Corporate Highlights

- The continued growth in the fourth quarter is a direct result of the Company's introduction of innovative products and expanded distribution channels. While top-line growth is a focus, the Company remains focused on increasing margins and cost containment.
- Vape products have been a key driver in recent sales growth initiatives with sales hitting consecutive records in 2021. Heritage offers vape products under four of its brands (Premium 5, RAD, Purefarma, and Pura Vida) and has been proactively managing its offerings to stay price competitive in all segments, while also delivering innovative products and new flavour profiles to keep up with consumer demands, reaching #9 in Canadian Vape Sales during the fourth quarter, and as a result RAD becoming the #2 brand in British Columbia.¹ Heritage also achieved the second largest vape supplier to New Brunswick with a 12% market share².
- In September 2021, Heritage launched a private label program (the "Private Label Program") that pairs leading cannabis brands with Heritage's extraction expertise. Heritage's first agreement under this private label program was with High Tide Inc. to manufacture its "Cabana Cannabis Co" branded shatter for distribution in Ontario, Manitoba, Saskatchewan, and Alberta.
- During the quarter, Heritage announced changes to its board of directors (the "Board") and appointment of a new Chief Executive Officer ("CEO"). Donald Ziraldo resigned from the Board and his position as Chair for personal reasons and to pursue other business initiatives. Clinton Sharples assumed the position as chair of the Board, and in conjunction with this, Mr. Sharples stepped down as President and CEO of the Company. The Board appointed David Schwede as his successor in the role of President and CEO. Mr. Schwede originally joined Heritage as President of Recreational following the acquisition of Premium 5. Max Gerard, a Partner at Merida, resigned as director from the Board and retained a position as an advisor to the Board. Merida, a large strategic shareholder in Heritage, maintains an active role in the Company and continues to support the advancement of Heritage's Canadian and U.S. strategy. In Mr. Gerard's place, Mr. Schwede was appointed as a director of the Board.
- Heritage entered into a three-year exclusive intellectual property licensing and royalty agreement (the "Licensing Agreement") with Avicanna Inc. ("Avicanna"), a biopharmaceutical company focused on the development, manufacturing, and commercialization of plant-derived cannabinoid-based products. The Licensing Agreement is for the commercialization of a number of Avicanna's advanced CBD-based topical products under Heritage's medical cannabis brands (the "Branded Products") targeting patients registered to purchase medical cannabis in Canada. The Branded Products were launched late 2021 through Heritage's extensive medical sales channels in Canada

¹ Headset Data

² Headset Data

- Heritage entered into a joint venture sales and processing agreement with Noble Growth Corp. ("Noble"), a cannabis cultivator focused on creating beneficial strains that contain sought after cannabinoid, flavonoid, and terpene profiles for both recreational and medical usage. Under the Agreement, Noble produces some of their highly sought-after cultivars for Heritage to strategically expand its presence in the premium dried flower markets across the nation under the RAD Reefer Reserve and Pura Vida Legacy brands. Noble currently houses over 300+ Pheno hunted genetics in tissue culture boasting high THC and Terpene levels and rare genetics that customers are looking for.
- Heritage executed a term sheet with Merida Capital Partners IV LP and its affiliates for up to USD\$1.5 million in senior unsecured convertible promissory notes to fund the Company's entry into the state of Missouri, in accordance with Heritage's relationship with 3Fifteen entered into on May 4, 2021. Subsequently Heritage entered into a Note and Warrant Purchase Agreement, dated October 18, 2021, pursuant to which Merida Fund III and Merida Fund IV loaned the Company an aggregate amount of USD\$1,500,000. The USD\$1.5 million was disbursed in four tranches from October 18, 2021 through December 31, 2021. On closing, the Company issued a promissory note to Merida Fund III (the "Note") for a principal amount of USD\$660,000 (the "Principal Amount"), set to mature on October 18, 2023. The Note has an interest rate of 15%, which shall be paid in common shares of the Company (the "Common Shares" and such shares issuable as interest payment, the "Interest Shares").
- In order to further support Heritage's growing business, it entered into an amended non-revolving loan agreement (the "Amended Loan Agreement") with BJK Holdings Ltd. ("BJK"), improving the terms of its existing loan with BJK entered into on March 29, 2021, and further supporting its growing business. Under the terms of the Amended Loan Agreement, the original loan amount of \$7.0 million was increased to \$7.175 million, and its maturity date was extended from September 29, 2022 to February 1, 2023 (the "Increased Initial Loan"). In connection with this Increased Initial Loan, the Company paid a one-time extension fee (the "Extension Fee") of \$175,000 to BJK on October 12, 2021 (the "Closing Date"). Additionally, pursuant to the Amended Loan Agreement, BJK advanced \$2.6 million to the Company on the Closing Date, at the Royal Bank of Canada prime lending rate plus 1.25% per annum, adjusted automatically with each quoted or published change in rate, until the entire Loan is repaid on February 1, 2023 (the "Additional Loan"). This Additional Loan was advanced to help fund the Company's capital asset acquisitions and general corporate purposes. To further support the Company's operations and growth, a revolving line of credit (the "Line of Credit") was established, up to a maximum of \$5.0 million, with an interest rate of 18% per annum, calculated daily and payable monthly. In total, through the Increased Initial Loan, the Additional Loan, and the Line of Credit (collectively, the "Loan"), the Company has access to a total of \$14.775 million through its Amended Loan Agreement with BJK. Accordingly, on the Closing Date, the Company granted to BJK a promissory note in the principal amount of \$14.775 million together with interest, to represent the amount to be repaid on or before February 1, 2023. If the Company repays the Loan in its entirety on or before October 1, 2022, BJK will repay the Extension Fee to the Company.

Financial Statements

The consolidated financial statements of the Company as at and for the three and twelve month periods ended October 31, 2021 and accompanying management's discussion and analysis have been filed with the securities regulators and are available on SEDAR at www.sedar.com under the Company's issuer profile.

About Heritage Cannabis Holdings Corp.

Heritage Cannabis is a leading cannabis company offering innovative products to both the medical and recreational legal cannabis markets in Canada and the U.S., operating under two licensed manufacturing facilities in Canada. The company has an extensive portfolio of high-quality cannabis products under the brands Purefarma, Pura Vida, RAD, Premium 5, feelgood., the CB4 suite of medical products in Canada and ArthroCBD in the U.S.

ON BEHALF OF THE BOARD OF DIRECTORS OF HERITAGE CANNABIS HOLDINGS CORP.

"David Schwede"

David Schwede
CEO

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The Canadian Securities Exchange does not accept responsibility for the adequacy or accuracy of this release.

Forward-Looking Statements

This press release contains certain "forward-looking information" within the meaning of applicable Canadian securities legislation and may also contain statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking information and forward-looking statements are not representative of historical facts or information or current condition, but instead represent only the Company's beliefs regarding future events, plans or objectives, many of which, by their nature, are inherently uncertain and outside of the Company's control. Generally, such forward-looking information or forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or may contain statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "will continue", "will occur" or "will be achieved". The forward-looking information contained herein may include, but is not limited to, assumptions related to cash flow and capital resources, and expectations related to the supply and manufacturing agreements, the intended expansion of the Company, and partnerships and Joint Venture Partnerships.

By identifying such information and statements in this manner, the Company is alerting the reader that such information and statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such information and statements.

An investment in securities of the Company is speculative and subject to several risks including, without limitation, the risks discussed under the heading "Risks and Uncertainties" in the Company's annual management discussion and analysis for the year ended October 31, 2021, and dated May 10, 2022. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in the forward-looking information and forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended.

In connection with the forward-looking information and forward-looking statements contained in this press release, the Company has made certain assumptions. Although the Company believes that the assumptions and factors used in preparing, and the expectations contained in, the forward-looking information and statements are reasonable, undue reliance should not be placed on such information and statements, and no assurance or guarantee can be given that such forward-looking information and statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information and statements. The forward-looking information and forward-looking statements contained in this press release are made as of the date of this press release, and the Company does not undertake to update any forward-looking information and/or forward-looking statements that are contained or referenced herein, except in accordance with applicable securities laws. All subsequent written and oral forward-looking information and statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this notice.