

November 16, 2020



# Schwazze, Formerly Operating as Medicine Man Technologies, Inc., Provides Business Update and Announces Strong Third Quarter 2020 Financial Results

*Revenues grew 39% year over year with significant contribution from Mesa Organics and Purplebees*

*Company to Host Conference Call and Webcast Today at 4:30 p.m. ET*

DENVER--(BUSINESS WIRE)-- Schwazze, formerly operating as Medicine Man Technologies Inc. (OTCQX:SHWZ) ("Schwazze " or "the Company"), today provided a business update and announced strong financial results for its third quarter ended September 30, 2020.

Justin Dye, Chairman and Chief Executive Officer of Schwazze shared, "We are pleased with our progress in the third quarter. We continued to grow revenue and meaningfully narrow our net loss. Our third quarter performance demonstrates the team's ability to implement our operating playbook and successfully integrate strategically attractive and accretive acquisitions such as Mesa Organics and Purplebee's, which have proven to be an excellent strategic fit, into our operations."

Dye continued, "We are eager to complete our acquisitions of Star Buds' 14 Colorado locations during the fourth quarter. Star Buds is one of the most recognized and successful retail cannabis operators in North America. These acquisitions position us to become a cannabis leader in Colorado by combining their industry expertise with our best-in-class playbook. Together, we are creating the next era of cannabis that lowers the barrier of acceptance for mainstream America and accelerates innovation in health, happiness and quality of life for consumers."

## **Business Update**

- On November 5, 2020, the Company announced that it has received satisfactory proof of funds acknowledgement from Star Buds in anticipation of closing the pending transactions. This acknowledgment enables companies to begin preparing for a fourth quarter 2020 closing of the acquisitions of 13 retail operations located throughout the Colorado front-range and one cultivation facility in Denver.
  - Star Buds is one of the most recognized and successful retail cannabis operators in North America based on revenue-per-location and profit. Upon completion of this transaction, the Company will be one the first publicly traded companies with full seed to sale operations in Colorado consisting of 17 dispensaries,

- manufacturing, and cultivation.
- Based on the consolidated, unaudited 2019 results the Company received from Star Buds, these acquisitions collectively earned approximately \$50M in revenue with a strong EBITDA margin.
  - The proforma revenue for the combined companies for 2020 will be approximately \$90M and the combined companies will be profitable and cash flow positive after the completion of the acquisition.
- On September 9, 2020, the Company announced that Nirup Krishnamurthy, Chief Integration and Information Officer, was named Chief Operating Officer, and Jeff Garwood, former GE executive, was appointed to the Schwazze Board of Directors.
    - Nirup Krishnamurthy has since assumed oversight of Schwazze's business units including retail, manufacturing, cultivation, wholesale sales, and marketing to drive operational excellence throughout field operations. He has also continued to be responsible for the alignment and prioritization of the ongoing integration of the Company's acquisitions and for driving technology innovation across the organization. Krishnamurthy joined Schwazze earlier this year, bringing more than 25 years of experience in operations, innovation, technology, integration and M&A at Fortune 500 companies including United Airlines, Northern Trust Bank and former grocery retailer The Great Atlantic & Pacific Tea Company (A&P).
    - Jeff Garwood is a recognized visionary business leader bringing 30 years of extensive experience across finance and operations to the Company and now serves on the Audit and Compensation Committees. He is the founder and the managing member of Liberation Capital, LLC, a private equity fund focused on providing modular, repeatable waste to value project finance, where he has been active with its investments for 10 years. Garwood is also the co-owner of Zysense, an entity providing high precision measurement instruments for research. Prior to Liberation Capital, he held a variety of senior leadership positions with General Electric, including President and CEO of GE Water and Process Technologies, President and CEO of GE Fanuc, and President of Garrett Aviation.

### **Third Quarter 2020 Financial Results**

Total revenue increased by \$2,091,505, or approximately 39%, to \$7,430,374 during the three months ended September 30, 2020 as compared to \$5,338,869 during the three months ended September 30, 2019. Product sales increased by approximately 168% to \$7,409,719 from \$2,760,196 in the third quarter 2019 while consulting and licensing fees decreased to \$20,655 from \$2,563,478 in the third quarter 2019. The increase in product sales can largely be attributed to the revenue associated with the acquisition of Mesa Organics in April 2020. The third quarter 2019 included \$1,782,457 in revenue awarded in litigation and other operating revenue of \$15,195 (both of which the Company views as non-recurring).

Cost of goods and services, consisting of expenses related to delivery of services and product procurement, was \$4,648,910 during the three months ended September 30, 2020, as compared to \$2,786,244 during the same period in 2019. This increase was due to increased sales of product.

Gross profit was \$2,781,464 during the three months ended September 30, 2020 as compared to \$2,552,625 during the same period in 2019, an increase of \$228,839. Gross profit margin decreased to approximately 37% of revenue from nearly 48% of revenue during the same period in 2019. However, excluding the \$1,782,457 in revenue awarded in litigation during the third quarter 2019, gross profit increased by \$2,011,296, while gross profit margin increased by approximately 260 basis points, mostly driven by the strength of the Mesa Organics acquisition.

Total operating expenses were \$6,400,290 during the three months ended September 30, 2020, as compared to operating expenses of \$3,478,232 during the same period in 2019, an increase of \$2,922,058. This increase was due to increased selling, general and administrative expenses, professional service fees, salaries, benefits and related employment costs and non-cash, stock-based compensation.

Total other income was \$704,615 during the three months ended September 30, 2020 as compared to net other expenses of \$902,371 during the same period in 2019. This represents an improvement of \$1,606,986. The increase in other income, net was primarily due to an unrecognized loss on derivative liabilities and lower interest expense coupled with unrealized gain on investments.

As a result, we generated a net loss of \$2,914,211 during the three months ended September 30, 2020 (or a loss of approximately \$0.07 per share on a basic weighted average), as compared to a net loss of \$1,827,978 (or a loss of approximately \$0.05 per share on a basic weighted average) during the three months ended September 30, 2019. However, excluding \$1,782,457 in revenue awarded in litigation during the third quarter 2019, net loss narrowed significantly on a year-over-year basis.

### **Conference Call and Webcast Scheduled for Third Quarter 2020**

Schwazze will host a conference call and webcast today at 4:30 p.m. ET.

Investors interested in participating in the conference call can dial 201-389-0879 or listen to the webcast from the Company's "Investors" website at <https://ir.schwazze.com>. The webcast will later be archived as well.

Following their prepared remarks, Chief Executive Officer Justin Dye and Chief Financial Officer Nancy Huber will also answer investor questions. Investors may submit questions in advance or during the conference call itself through the weblink: <http://public.viavid.com/index.php?id=141477>. This weblink has also been posted to the Company's "Investors" website.

### **About Schwazze**

Medicine Man Technologies, Inc. is now operating under its new trade name, Schwazze. Schwazze is executing its strategy to become a leading vertically integrated cannabis holding company with a portfolio consisting of top-tier licensed brands spanning cultivation, extraction, infused-product manufacturing, dispensary operations, consulting, and a nutrient line. Schwazze leadership includes Colorado cannabis leaders with proven expertise in product and business development as well as top-tier executives from Fortune 500 companies. As a leading platform for vertical integration, Schwazze is strengthening the operational efficiency of the cannabis industry in Colorado and beyond, promoting sustainable growth and increased access to capital, while delivering best-quality service and

products to the end consumer. The corporate entity continues to be named Medicine Man Technologies, Inc.

### **Forward-Looking Statements**

This press release contains "forward-looking statements." Such statements may be preceded by the words "intends," "may," "will," "plans," "expects," "anticipates," "projects," "predicts," "estimates," "aims," "believes," "hopes," "potential," or similar words. Forward-looking statements are not guarantees of future performance, are based on certain assumptions, and are subject to various known and unknown risks and uncertainties, many of which are beyond the Company's control and cannot be predicted or quantified. Consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, without limitation, risks and uncertainties associated with (i) our inability to manufacture our products and product candidates on a commercial scale on our own or in collaboration with third parties; (ii) difficulties in obtaining financing on commercially reasonable terms; (iii) changes in the size and nature of our competition; (iv) loss of one or more key executives or scientists; and (v) difficulties in securing regulatory approval to market our products and product candidates. More detailed information about the Company and the risk factors that may affect the realization of forward-looking statements is set forth in the Company's filings with the Securities and Exchange Commission (SEC), including the Company's Annual Report on Form 10-K and its Quarterly Reports on Form 10-Q. Investors and security holders are urged to read these documents free of charge on the SEC's website at <http://www.sec.gov>. The Company assumes no obligation to publicly update or revise its forward-looking statements as a result of new information, future events or otherwise.

## **Part I – FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

**MEDICINE MAN TECHNOLOGIES, INC.**  
**CONDENSED BALANCE SHEET**  
*Expressed in U.S. Dollars*

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	(Unaudited)	(Audited)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,981,688	\$ 11,853,627
Accounts receivable, net of allowance for doubtful accounts	812,212	313,317
Accounts receivable – related party	91,990	72,658
Inventory	2,151,612	684,940
Notes receivable – related party	283,849	767,695
Prepaid expenses and other current assets	254,602	529,416
Prepaid acquisition costs (Note 11)	–	1,347,462
<b>Total current assets</b>	<b>6,575,953</b>	<b>15,569,115</b>
Non-current assets		
Fixed assets, net of accumulated depreciation of \$893,964 and \$159,354, respectively	2,719,154	239,078
Goodwill	17,445,843	12,304,306
Intangible assets, net of accumulated amortization of \$24,771 and \$19,811, respectively	70,329	75,289
Investment	527,575	406,774
Accounts receivable – litigation	3,063,968	3,063,968
Deferred tax assets, net	268,423	268,423
Notes receivable – noncurrent, net	247,272	241,711
Operating lease right of use assets	1,650,117	59,943
Other assets	127,999	–
<b>Total non-current assets</b>	<b>26,120,680</b>	<b>16,659,492</b>
<b>Total assets</b>	<b>\$ 32,696,633</b>	<b>\$ 32,228,607</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	2,957,390	\$ 699,961
Accounts payable – related party	127,694	15,372
Accrued expenses	1,426,315	1,091,204
Derivative liabilities	782,896	3,773,382
Income taxes payable	–	1,940
<b>Total current liabilities</b>	<b>5,294,295</b>	<b>5,581,859</b>
Noncurrent liabilities		
Lease liabilities	1,684,005	66,803
<b>Total noncurrent liabilities</b>	<b>1,684,005</b>	<b>66,803</b>
<b>Total liabilities</b>	<b>6,978,300</b>	<b>5,648,662</b>
Commitments and contingencies (Note 11)		–
<b>Shareholders' equity</b>		
Common stock \$0.001 par value, 250,000,000 authorized, 42,194,878 shares issued and 41,762,146 shares outstanding at September 30, 2020, and 39,952,628 shares issued and outstanding at December 31, 2019.	42,195	39,953
Additional paid-in capital	60,714,343	50,356,469
Accumulated deficit	(33,705,705)	(22,816,477)
Common stock held in treasury, at cost, 432,732 shares held at September 30, 2020 and December 31, 2019.	(1,332,500)	(1,000,000)
<b>Total shareholders' equity</b>	<b>25,718,333</b>	<b>26,579,945</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 32,696,633</b>	<b>\$ 32,228,607</b>

See accompanying notes to the financial statements

**MEDICINE MAN TECHNOLOGIES, INC.**  
**CONDENSED STATEMENT OF COMPREHENSIVE (LOSS) AND INCOME**  
For the Three and Nine Months Ended September 30, 2020 and 2019  
Expressed in U.S. Dollars

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2019 (Unaudited)
<b>Operating revenues:</b>				
Product sales, net	\$ 7,094,896	\$ 2,147,182	\$ 14,292,374	\$ 4,743,391
Product sales – related party, net	314,823	613,014	484,930	893,084
Consulting and licensing services	20,655	781,021	1,267,587	1,657,286
Litigation revenue	–	1,782,457	–	1,782,457
Other operating revenues	–	15,195	12,946	23,946
<b>Total revenue</b>	<b>7,430,374</b>	<b>5,338,869</b>	<b>16,057,837</b>	<b>9,100,164</b>
<b>Cost of goods and services:</b>				
Cost of goods and services	4,648,910	2,786,244	9,904,131	5,471,369
<b>Total cost of goods and services</b>	<b>4,648,910</b>	<b>2,786,244</b>	<b>9,904,131</b>	<b>5,471,369</b>
<b>Gross profit</b>	<b>2,781,464</b>	<b>2,552,625</b>	<b>6,153,706</b>	<b>3,628,795</b>
<b>Operating expenses:</b>				
Selling, general and administrative expenses	1,298,693	718,990	3,054,091	1,092,702
Professional services	1,769,455	837,940	5,390,186	3,602,772
Salaries, benefits and related expenses	1,878,156	980,432	5,973,482	1,862,990
Stock based compensation	1,453,986	940,870	5,815,808	3,166,276
Derivative expense – contingent compensation	–	–	–	5,400,559
<b>Total operating expenses</b>	<b>6,400,290</b>	<b>3,478,232</b>	<b>20,233,567</b>	<b>15,125,299</b>
<b>Income from operations</b>	<b>(3,618,826)</b>	<b>(925,607)</b>	<b>(14,079,861)</b>	<b>(11,496,504)</b>
<b>Other income (expense):</b>				
Gain on forfeiture of contingent consideration	–	–	1,462,636	–
Interest income (expense), net	10,131	36,462	46,726	(155,815)
Other income (expense)	–	–	32,621	–
Unrealized gain (loss) on derivative liabilities	684,422	(197,526)	1,527,850	(452,090)
Unrealized gain (loss) on investments	10,062	(741,307)	120,800	(1,458,037)
<b>Total other income (expense)</b>	<b>704,615</b>	<b>(902,371)</b>	<b>3,190,633</b>	<b>(2,065,942)</b>
<b>Net income (loss)</b>	<b><u>\$ (2,914,211)</u></b>	<b><u>\$ (1,827,978)</u></b>	<b><u>\$ (10,889,228)</u></b>	<b><u>\$ (13,562,446)</u></b>
<b>Earnings (loss) per share attributable to common shareholders:</b>				
Basic and diluted earnings (loss) per share	<u>\$ (0.07)</u>	<u>\$ (0.05)</u>	<u>\$ (0.26)</u>	<u>\$ (0.44)</u>
Weighted average number of shares outstanding - basic and diluted	<u>41,568,147</u>	<u>35,115,889</u>	<u>41,242,041</u>	<u>31,136,392</u>
<b>Other comprehensive income (loss), net of tax</b>				
<b>Total other comprehensive income (loss), net of tax</b>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Comprehensive income (loss)</b>	<b><u>\$ (2,914,211)</u></b>	<b><u>\$ (1,827,978)</u></b>	<b><u>\$ (10,889,228)</u></b>	<b><u>\$ (13,562,446)</u></b>

See accompanying notes to the financial statements

**MEDICINE MAN TECHNOLOGIES, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)**  
*For the Nine months Ended September 30, 2020 and 2019*  
*Expressed in U.S. Dollars*

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>		
	<u>Shares</u>	<u>Value</u>					
Balance, December 31, 2018	27,753,310	\$27,875	\$22,886,624	\$ (5,840,735)	\$ 17,073,764		
Net income (loss)	–	–	–	(13,562,446)	(13,562,446)		
Issuance of common stock in connection with sales made under private or public offerings	9,800,000	9,800	19,590,200	–	19,600,000		
Issuance of common stock in connection with the exercise of common stock purchase warrants	452,426	452	601,274	–	601,726		
Issuance of common stock as compensation to employees, officers and/or directors	1,190,000	1,190	2,723,710	–	2,724,900		
Issuance of common stock in exchange for consulting, professional and other services	173,775	173	305,348	–	305,521		
Stock based compensation expense related to common stock options	–	–	1,196,376	–	1,196,376		
Balance, September 30, 2019	<u>39,369,511</u>	<u>\$39,490</u>	<u>\$47,303,532</u>	<u>\$(19,403,181)</u>	<u>\$ 27,939,841</u>		
	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>		<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Value</u>			<u>Shares</u>	<u>Cost</u>	
Balance at, December 31, 2019	<u>39,952,628</u>	<u>\$39,953</u>	<u>\$50,356,469</u>	<u>\$(22,816,477)</u>	<u>257,732</u>	<u>\$(1,000,000)</u>	<u>\$ 26,579,945</u>
Net income (loss)	–	–	–	(10,889,228)	–	–	(10,889,228)
Issuance of common stock as payment for Mesa	2,554,750	2,555	4,167,253	–	–	–	4,169,808
Return of common stock as compensation to employees, officers and/or directors	(500,000)	(500)	–	–	–	–	(500)
Issuance of common stock in connection with sales made under private or public offerings	187,500	187	374,813	–	–	–	375,000
Return of common stock	–	–	–	–	175,000	(332,500)	(332,500)
Stock based compensation expense related to common stock options	–	–	5,815,808	–	–	–	5,815,808
Balance, September 30, 2020	<u>42,194,878</u>	<u>\$42,195</u>	<u>60,714,343</u>	<u>\$(33,705,705)</u>	<u>432,732</u>	<u>\$(1,332,500)</u>	<u>\$ 25,718,333</u>

See accompanying notes to the financial statements

**MEDICINE MAN TECHNOLOGIES, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)**  
*For the Three months Three September 30, 2020 and 2019*  
*Expressed in U.S. Dollars*

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Treasury</u>		<u>Total</u>
	<u>Shares</u>	<u>Value</u>	<u>Paid-in</u>	<u>Deficit</u>	<u>Shares</u>	<u>Cost</u>	<u>Stockholders'</u>
			<u>Capital</u>				<u>Equity</u>
Balance at, June 30, 2019	<u>31,769,511</u>	<u>\$31,890</u>	<u>\$31,170,261</u>	<u>\$(17,575,203)</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 13,626,948</u>
Net income (loss)	-	-	-	(1,827,978)	-	-	(1,827,978)
Issuance of common stock in connection with sales made under private or public offerings	7,600,000	7,600	16,133,271	-	-	-	16,140,871
Issuance of common stock in connection with the exercise of common stock purchase warrants	-	-	-	-	-	-	-
Issuance of common stock as compensation to employees, officers and/or directors	-	-	-	-	-	-	-
Issuance of common stock in exchange for consulting, professional, and other services	-	-	-	-	-	-	-
Stock based compensation expense related to common stock options	-	-	-	-	-	-	-
Balance, September 30, 2019	<u>39,369,511</u>	<u>\$39,490</u>	<u>\$47,303,532</u>	<u>\$(19,403,181)</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 27,939,841</u>
	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Value</u>	<u>Paid-in</u>	<u>Deficit</u>	<u>Shares</u>	<u>Cost</u>	<u>Stockholders'</u>
			<u>Capital</u>				<u>Equity</u>
Balance at, June 30, 2020	<u>42,194,878</u>	<u>\$42,195</u>	<u>\$59,260,357</u>	<u>\$(30,791,494)</u>	<u>257,732</u>	<u>\$(1,000,000)</u>	<u>\$ 27,511,058</u>
Net income (loss)	-	-	-	(2,914,211)	-	-	(2,914,211)
Issuance of common stock as payment for Mesa	-	-	-	-	-	-	-
Return of common stock as compensation to employees, officers and/or directors	-	-	-	-	-	-	-
Issuance of common stock in connection with sales made under private or public offerings	-	-	-	-	-	-	-
Return of common stock	-	-	-	-	175,000	(332,500)	(332,500)
Stock based compensation expense related to common stock options	-	-	1,453,986	-	-	-	1,453,986
Balance, September 30, 2020	<u>42,194,878</u>	<u>\$42,195</u>	<u>60,714,343</u>	<u>\$(33,705,705)</u>	<u>432,732</u>	<u>\$(1,332,500)</u>	<u>\$ 25,718,333</u>

See accompanying notes to the financial statements

**MEDICINE MAN TECHNOLOGIES, INC.**  
**STATEMENT OF CASH FLOWS**  
For the Nine months Ended September 30, 2020 and 2019  
Expressed in U.S. Dollars

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Net income for the period	\$(10,889,228)	\$(13,562,446)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	322,292	45,768
Common stock issued in exchange for fees and services	–	210,521
Derivative expense	–	5,400,559
Loss on change in derivative liabilities	(2,990,486)	452,091
Loss on investment, net	(120,800)	1,458,037
Stock based compensation	5,815,808	3,921,276
Changes in operating assets and liabilities		
Note receivable	–	–
Accounts receivable	1,292,509	(2,868,093)
Inventory	271,305	81,530
Prepaid expenses and other current assets	274,814	(629,032)
Other assets	(127,999)	–
Operating lease right of use assets and liabilities	27,028	(67,839)
Accounts payable and other liabilities	(177,295)	878,066
Income taxes payable	(1,940)	–
<b>Net cash used from operating activities</b>	<u>(6,303,992)</u>	<u>(4,679,562)</u>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	(976,685)	(7,312)
Cash consideration for acquisition of business	(2,609,500)	–
Cash acquired in acquisition of business	–	–
Repayment (issuance) of notes receivable	478,285	(632,053)
Investment proceeds	–	–
<b>Net cash used in investing activities</b>	<u>(3,107,900)</u>	<u>(639,365)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock, net of issuance costs and returns	42,000	19,600,000
Proceeds from exercise of common stock purchase warrants, net of issuance costs	–	601,726
<b>Net cash earned for financing activities</b>	<u>42,000</u>	<u>20,201,726</u>
Net decrease in cash and cash equivalents	(9,369,892)	14,882,799
Cash and cash equivalents - beginning of period	12,351,580	321,788
<b>Cash and cash equivalents - end of period</b>	<u>\$ 2,981,688</u>	<u>\$ 15,204,587</u>

See accompanying notes to the financial statements

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