

# Inner Spirit Holdings Announces Planned Opening of First Corporate Store and Releases First Quarter 2019 Financial Results

*Recent financing to help fund further national expansion of Spiritleaf brand*

CALGARY, May 30, 2019 /CNW/ - Inner Spirit Holdings Ltd. ("**Inner Spirit**" or the "**Company**") (CSE:ISH) today announced that it has received a retail cannabis store licence from Alberta Gaming, Liquor and Cannabis (the "**AGLC**") for its first corporate wholly-owned retail cannabis store located in the heart of Calgary's Beltline district, which is expected to open in June 2019. The Company has also filed its Interim Financial Statements and corresponding Management's Discussion and Analysis for the quarter ended March 31, 2019. The filings are available for review on the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.innerspiritholdings.com](http://www.innerspiritholdings.com).

"We made significant progress on further developing our business during the first quarter of the year, including recording a first full quarter of revenue from operating Spiritleaf franchise stores which contributed to a 90% increase in system-wide retail sales<sup>1</sup>. At the same time the Company was preparing for additional store openings and other corporate activity to occur in the second quarter, which included completing a significant financing to enable us to execute our business plan to open additional corporate and franchise stores, support our franchise network and further build the Spiritleaf brand nationally," said Darren Bondar, President and CEO of Inner Spirit.

**During the quarter ended March 31, 2019, the Company reported the following highlights:**

## **Financial Highlights**

- Inner Spirit reported system-wide retail sales<sup>1</sup> of \$3,406,830, a 90% increase from \$1,786,137 in the first quarter of 2018. This included \$1,890,445 from operating Spiritleaf franchise stores and \$1,516,385 from the Watch It! retail operation.
- Royalty revenue increased 232% to \$116,618, compared with \$35,112 in the same period of 2018, which was primarily due to the five Spiritleaf franchise stores now open and operating.
- Total Company revenue was \$1,253,095, a 24% increase from \$1,010,171 in the first quarter of 2018.
- Gross margin increased to 53.5%, compared with 51.6% in the same period of 2018, as a result of increased royalties.
- Inner Spirit reported a loss of \$2,004,895, or \$0.01 per share, compared with \$1,410,280, or \$0.01 per share, in the same period of 2018.

## **Corporate Highlights**

- The Company's franchise partners operated five Spiritleaf retail cannabis stores during the quarter, in Calgary, Brooks, St. Albert and Lethbridge, Alberta and in Moose Jaw, Saskatchewan. The Calgary store opened during the quarter in Northeast Calgary's Stonegate Plaza on February 14, 2019. The open and operating Spiritleaf retail cannabis stores recorded strong individual store sales in line with Company projections.
- The Company entered into an agreement with a Spiritleaf franchise partner to acquire three store locations in Calgary and Canmore, Alberta. The stores have received their municipal recreational cannabis store development permits, with the first Canmore store now approved and in the AGLC retail cannabis licensing queue and the prime Mission location on the corner of 17<sup>th</sup> Avenue and 4<sup>th</sup> Street SW in Calgary nearing completion.
- The Company announced that further to an initial investment and strategic partnership with Tilray, Inc. ("**Tilray**") (NASDAQ:TLRY) and its wholly owned subsidiary High Park Holdings Ltd.

that was announced in December 2018 (the "**Tilray Investment**"), Tilray increased its total investment in Inner Spirit to \$6 million by providing the Company with a \$1.5 million secured short-term loan at a rate of 12.0% per annum (the "**Tilray Loan**").

**Since the end of the first quarter ended March 31, 2019, the Company has achieved the following:**

- The Company opened a flagship location in Kingston, Ontario on April 1, 2019 in partnership with one of the initial retail cannabis license lottery winners in that province. The Kingston store located on Princess Street has achieved sales of approximately \$1.2 million during its first two months of operations.
- A seventh franchise Spiritleaf-branded retail cannabis store opened in Edmonton's Argyll Plaza on May 17, 2019, helping propel the Company to reach more than \$5,600,000 in system-wide retail sales<sup>1</sup> since the legalization of cannabis in Canada on October 17, 2018.
- Company franchise partners received provincial licensing approvals for franchise retail cannabis stores in Castlegar and Maple Ridge, B.C. with four additional B.C. locations awaiting approval and in various stages of construction.
- On May 30, 2019, the AGLC announced the lifting of its moratorium on accepting new retail cannabis licence applications and issuing new retail cannabis licences, and issued a retail cannabis licence for the Company's first corporate store in Calgary's Beltline district. The Company was also notified that the corporate retail store that it intends to open on Edmonton's Whyte Avenue is in the top ten of the AGLC's current retail cannabis licensing queue. There are currently a total of four corporate locations and eight additional franchise locations fully approved and in the provincial retail cannabis licensing queue.
- The Company completed a brokered offering of secured convertible debenture units for aggregate gross proceeds of \$9.3 million (the "**Offering**"). Key financial support came from strategic partners Auxly Cannabis Group Inc. (TSX.V:XLY) and Tilray.
- In connection with the closing of the Offering, a portion of the net proceeds will be used to fully repay the previously announced Tilray Loan (plus accrued interest). The Company also agreed to enter into an amendment to the second tranche of the Tilray Investment, such that the aggregate value of the second tranche cross-investment may be reduced so that Tilray's aggregate ownership does not exceed 9.95% of the Company's issued and outstanding common shares following completion of the second tranche.

"Our focus for 2019 is to push forward with opening franchise stores as well as corporate outlets in high-traffic locations to build out Spiritleaf's national footprint. We will continue to deliver on our strategic objectives in the very dynamic and rapidly changing retail cannabis marketplace. We know the Spiritleaf concept will expand effectively as regulations further enable the retail opportunity and additional product reaches the market. We have great support from our customers, investors, franchisees, strategic partners and employees as we pursue our growth strategy and look to create value for shareholders," said Bondar.

The Company's annual general meeting of shareholders was held on May 30, 2019.

This news release is not in any way a substitute for reading the interim Financial Statements of the Company for the quarter ended March 31, 2019, including the notes thereto, and the corresponding Management's Discussion and Analysis.

(1) System-wide retail sales are a Non-IFRS measure. For more information, see "*Non-IFRS Financial Measures*" section below.

## **About Inner Spirit**

Inner Spirit is establishing a network of recreational cannabis stores under its Spiritleaf brand. Supporting local entrepreneurs by applying its award-winning franchise and retail models, Inner Spirit

has more than 100 franchise agreements in place for potential Spiritleaf locations and plans to operate corporate outlets in certain jurisdictions. The Company is simultaneously developing a diverse portfolio of proprietary quality and curated lifestyle cannabis products positioning the company to be an iconic Canadian brand and the most trusted source for recreational cannabis. Key industry partners and shareholders include Auxly Cannabis Group Inc. (TSX.V:XLY); HEXO Corp (TSX:HEXO) (previously as Newstrike Brands Ltd. (TSX.V:HIP)); and Tilray, Inc. (NASDAQ:TLRY). More information can be found on Inner Spirit's website at [www.innerspiritholdings.com](http://www.innerspiritholdings.com).

### **Non-IFRS Financial Measures**

In this news release, the Company reports "system-wide retail sales", a financial measure that is not determined or defined in accordance with the International Financial Reporting Standards, as issued by the International Accounting Standards Board ("**IFRS**"). Such non-IFRS financial measure, and other measures derived therefrom, do not have a standardized meaning prescribed by IFRS, and Inner Spirit's methods of calculating this financial measure may differ from methods used by other companies. Accordingly, such non-IFRS financial measure may not be comparable to similarly titled measures presented by other companies. This measure is provided as additional information to complement IFRS by providing a further understanding of operations from management's perspective and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

System-wide retail sales are the sum of the revenue reported to Inner Spirit by franchisees of Spiritleaf retail cannabis stores, by franchisees of Watch It! retail stores and by Company-owned Watch It! retail stores. This measure is useful to management and the investment community in evaluating brand scale and market penetration, and is used by management of Inner Spirit to assess the financial and operational performance of the Company.

### **Forward-looking statements**

This news release contains statements and information that, to the extent that they are not historical fact, may constitute "forward-looking information" within the meaning of applicable securities legislation. Forward-looking information may include financial and other projections, as well as statements regarding future plans, objectives or economic performance, or the assumption underlying any of the foregoing. In some cases, forward-looking statements can be identified by terms such as "may", "would", "could", "will", "likely", "except", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", "outlook", "potential", or the negative thereof or other similar expressions concerning matters that are not historical facts. Examples of such statements include, but are not limited to, statements with respect to the objectives and business plans of the Company; the establishment of recreational cannabis stores in Canada; the receipt of necessary licenses and permits to open retail cannabis stores and the timing thereof; the improvement in the cannabis supply chain in Canada; the opening of Spiritleaf retail cannabis stores in Alberta and British Columbia; the anticipated issuance of retail cannabis licenses in Alberta by the AGLC following the lifting of the AGLC's moratorium on accepting new retail cannabis license applications and issuing new retail cannabis licenses; the status of the Company's corporate and franchise retail cannabis stores in the AGLC's current retail cannabis licensing queue; the anticipation that the regulations pertaining to the retail cannabis industry will further enable the retail cannabis opportunity; the objective of the Company to build the Spiritleaf brand nationally; and the objective of the Company to open Spiritleaf franchise stores and Spiritleaf corporate stores in Canada in 2019. Actual results could differ materially from those currently anticipated due to a number of factors and risks, including but not limited to, the risk that additional stores may not open due to national retail cannabis supply issues; the risk that the Spiritleaf recreational cannabis stores intended to be opened in Alberta and British Columbia do not open as anticipated or at all; the risk that the Company or its franchisees are not able to open additional retail cannabis stores in Canada; and other factors outside of the Company's control. Readers are cautioned that the foregoing list of factors and risks is not exhaustive. Although the Company believes that the expectations and assumptions on which such

forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because the Company can give no assurance that they will prove to be correct. Since forward-looking information addresses future events and conditions, by its very nature they involve inherent risks and uncertainties. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits the Company will derive therefrom. The forward-looking statements included in this news release are made as of the date of this news release and the Company does not undertake an obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless required by applicable securities legislation.

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CNW 19:42e 30-MAY-19