



FOR IMMEDIATE RELEASE

Inner Spirit Holdings Announces Strong First Quarter 2021 Financial Results Highlighted by Fourth Consecutive Quarter of Positive Adjusted EBITDA¹ and Positive Cash Flow

Sale of Canada's largest single brand network of 92 retail cannabis stores to Sundial Growers for \$131 million announced earlier in May

CALGARY, Alberta (May 31, 2021) – Inner Spirit Holdings Ltd. (“**Inner Spirit**” or the “**Company**”) (CSE:ISH) (OTCQB:INSHF), a Canadian company that has established a national network of Spiritleaf retail cannabis stores, today announced it has filed its consolidated financial statements for the quarter ended March 31, 2021 and corresponding management’s discussion and analysis, as well its amended and restated audited consolidated financial statements for the years ended December 31, 2020 and 2019 and corresponding management’s discussion and analysis. The filings are available for review on the Company’s SEDAR profile at www.sedar.com and the Company’s website at www.innerspiritholdings.com. Further information regarding the prior period restatement can be found under the "Prior Period Restatement" section of this news release.

“The Company’s financial results for the first quarter of the year were consistent with our expectations as we posted revenue of \$8.8 million and recorded system-wide retail sales¹ of \$35.9 million through the Spiritleaf store network. We again achieved positive Adjusted EBITDA¹ and positive cash flow from operations in the quarter. Our now-proven ability to manage costs and operate efficiently as we build out the Spiritleaf network of stores bodes well for future growth. The recent transaction announced with Sundial Growers will put us in a great position to expand our business and work with Sundial to develop synergies that benefit both organizations once we complete it early in the third quarter of 2021,” said Darren Bondar, President and CEO of Inner Spirit.

Financial Results

Inner Spirit reported the following financial highlights for the quarter ended March 31, 2021. A reconciliation of the non-IFRS financial measures can be found under the "Non-IFRS Financial Measures" section of this news release.

- Total revenue was \$8.8 million, an increase of 113% compared with \$4.1 million in the first quarter of 2020.
- System-wide retail sales¹ was \$35.9 million, an increase of 109% compared with \$17.2 million in the first quarter of 2020. System-wide retail sales¹ represent the aggregate revenue earned by franchised Spiritleaf retail cannabis stores and corporate-owned Spiritleaf retail cannabis stores, and do not solely represent the Company’s revenue. The Company only receives royalties and advertising fees in respect of the franchised Spiritleaf retail cannabis store revenue forming part of the system-wide retail sales.
- Gross profit was \$4.1 million or a gross margin of 47.0%, compared with \$2.0 million or a gross margin of 47.6% in the first quarter of 2020.
- Operating loss before other expenses was \$0.3 million, compared with \$0.7 million in the first quarter of 2020.
- Total net loss was \$2.4 million, or \$0.01 per share, compared with a total net loss of \$1.6 million, or \$0.01 per share, in the first quarter of 2020².
- Adjusted EBITDA¹ was \$0.5 million, an improvement of \$0.6 million compared with an Adjusted EBITDA¹ loss of \$0.1 million in the first quarter of 2020.
- Cash flow provided by operations was \$0.2 million, an improvement of \$1.7 million compared with cash flow used in operations of \$1.5 million in the first quarter of 2020.
- Cash increased to \$13.3 million as at March 31, 2021, compared with \$2.6 million as at March 31, 2020. During the quarter, the Company completed a bought deal offering for proceeds of approximately \$11.5 million.



Sundial Transaction

Subsequent to the quarter, on May 5, 2021, the Company announced it had entered into an arrangement agreement (the “**Agreement**”) with Sundial Growers Inc. (“**Sundial**”) (NASDAQ: SNDL) pursuant to which Sundial will acquire all of the issued and outstanding common shares of Inner Spirit for total consideration of approximately \$131 million (the “**Transaction**”).

Under the terms of the Agreement, Inner Spirit’s shareholders will receive, for each Inner Spirit common share held, (i) \$0.30 in cash and (ii) 0.0835 of a Sundial common share (representing \$0.09 per Inner Spirit common share based on the 10-day volume-weighted average price (“**VWAP**”) of Sundial common shares on the Nasdaq Capital Market on May 4, 2021), for total consideration of \$0.39 per Inner Spirit common share. The Transaction has been unanimously approved by the Boards of Directors of Sundial and Inner Spirit and is expected to close early in the third quarter of 2021.

Network Expansion

During the first quarter of 2021 and subsequent, the Company has continued to expand its network of Spiritleaf retail cannabis stores across Canada. Spiritleaf operated 68 stores to begin the first quarter of 2021 and opened 14 stores during the quarter in Alberta, Saskatchewan, Ontario, and Newfoundland and Labrador. In April and May, Spiritleaf has opened an additional 10 stores in Alberta, Saskatchewan and Ontario. With the recent additions, Spiritleaf has a total of 92 stores across the country (72 franchise owned and 20 corporate owned). Please visit www.spiritleaf.ca for information on store locations and their operating hours.

“We’ve been able to expand the Spiritleaf network organically due to the support and dedication of our franchise partners, employees, customers, strategic partners and investors. We have developed a strong business model that is attracting entrepreneurs to invest their hard-earned capital in the Spiritleaf opportunity and to represent our brand in their communities and with their neighbours. We have additional Spiritleaf store locations being readied to open at this time and expect to celebrate achieving our 100th store this summer,” said Bondar.

Operations Update

Spiritleaf stores have been operating with enhanced customer service processes to ensure the safety of employees and customers due to the ongoing COVID-19 pandemic. Spiritleaf’s Select & Collect service enables customers to pre-shop and order online prior to pick-up in store or curbside or via delivery where permitted. The fast-growing and popular Spiritleaf Collective customer benefits program, which recently surpassed 280,000 members, streamlines and individualizes the shopping experience for guests. The Collective program was recently recognized with a Gold Award at the annual Hermes Creative Awards competition for its innovative approach to brand building in the cannabis space.

The Company also noted Spiritleaf has received a special industry designation from the Canadian Franchise Association (the “**CFA**”) for a second consecutive year. The Franchisees' Choice Designation was achieved due to exceptional survey satisfaction rankings from Spiritleaf franchise partners. The designation is part of the CFA’s annual awards program to recognize franchising's top-performing organizations.

¹ System-wide retail sales and Adjusted EBITDA are non-IFRS financial measures. For more details, see the “*Non-IFRS Financial Measures*” section below.

² The comparative period has been restated to correct an accounting error treatment of the initial measurement and recognition of the convertible debentures issued in the second quarter of 2019. For more details, see the “*Prior Period Restatement*” section below.

Prior Period Restatement

The Company has restated its December 31, 2020 and 2019 audited financial statements to correct an error in the measurement of the amortized cost calculations on the debentures. The net impact to the December 31, 2019 financial statements is a decrease in total liabilities of \$0.7 million and a decrease in net loss of \$0.7 million. The



net impact to the December 31, 2020 financial statements is a decrease in total liabilities of \$1.2 million, a decrease in deficit of \$1.2 million and a decrease in net loss of \$0.5 million. The full effect of this restatement can be found in Note 26 of the amended and restated audited consolidated financial statements for the years ended December 31, 2020 and 2019.

As a result of the above restatement, the Company has restated its March 31, 2020 comparative period to adjust the debenture accretion on the March 31, 2020 income statement. The net impact to the March 31, 2020 consolidated income statement is a decrease to convertible debenture accretion by \$0.4 million and decrease net loss of \$0.4 million. The full effect of this restatement can be found in Note 23 of the interim condensed financial statements for the three months ended March 31, 2021 and 2020.

About Inner Spirit

Inner Spirit Holdings Ltd. (CSE:ISH) (OTCQB:INSHF) is a retailer and franchisor of Spiritleaf recreational cannabis stores across Canada. The Spiritleaf network includes 92 franchised and corporate-owned locations, all operated with an entrepreneurial spirit and with the goal of creating deep and lasting ties within local communities. Spiritleaf aims to be the most knowledgeable and trusted source of recreational cannabis by offering a premium consumer experience and quality curated cannabis products. The Company is led by passionate advocates for cannabis who have years of retail, franchise and consumer marketing experience. Spiritleaf has been recognized with a Franchisees' Choice Designation from the Canadian Franchise Association for its award-winning support centre for two consecutive years, a MarCom Platinum Award for marketing excellence, and a Hermes Gold Award for its creative customer benefits program. Learn more at www.innerspiritholdings.com and www.spiritleaf.ca.

Non-IFRS Financial Measures

In this news release, the Company reports "system-wide retail sales" and "Adjusted EBITDA", financial measures that are not determined or defined in accordance with the International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS"). Such financial measures do not have standardized meanings prescribed by IFRS and Inner Spirit's methods of calculating these financial measures may differ from methods used by other companies. Accordingly, such non-IFRS financial measures may not be comparable to similarly titled measures presented by other companies. These measures are 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

System-wide retail sales represents the sum of the revenue reported to the Company by franchisees of Spiritleaf retail cannabis stores and by corporate-owned Spiritleaf retail cannabis stores. System-wide retail sales represent the aggregate revenue earned by franchised Spiritleaf retail cannabis stores and corporate-owned Spiritleaf retail cannabis stores, and do not solely represent the Company's revenue. The Company only receives royalties and advertising fees in respect of the franchised Spiritleaf retail cannabis store revenue forming part of the system-wide retail sales. 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 and the strength of the Company's market position relative to its competitors.

The following table reconciles the Company's system-wide retail sales to revenue, being the most directly comparable measure calculated in accordance with IFRS.



| | Three months ended | |
|--------------------------|--------------------|----------------|
| | March 31, 2021 | March 31, 2020 |
| System-Wide Retail Sales | \$ 35,944,985 | \$ 17,163,247 |
| Less: | | |
| Franchise store sales | (30,023,463) | (14,522,184) |
| Add back: | | |
| Royalties | 1,356,588 | 738,125 |
| Advertising | 304,609 | 147,949 |
| Millwork | 616,661 | 327,459 |
| Franchise fee | 158,750 | 73,750 |
| Supply | 447,759 | 205,406 |
| Revenue | \$ 8,805,889 | \$ 4,133,752 |

Adjusted EBITDA

Adjusted EBITDA is defined as the net and comprehensive income (loss) for the period, as reported, adjusted for right-of-use asset depreciation, depreciation and amortization, unrealized and realized gain (loss) on marketable securities, gain (loss) on lease derecognition, gain (loss) on sublease arrangement, financial guarantee liability expense, finance income, interest expense (accretion) – leases, impairment loss on intangible assets, interest expense, revaluation loss on derivative, convertible debenture accretion, share-based compensation, taxes, and other non-cash and non-recurring items. Management believes Adjusted EBITDA is a useful financial metric to assess its operating performance prior to consideration of how operations are financed, how the results are taxed, and how the results are impacted by non-cash charges and charges that are irregular in nature or not reflective of the Company's core operations.

The following table reconciles the Company's net loss and comprehensive loss, being the most directly comparable measure calculated in accordance with IFRS, to Adjusted EBITDA.

| Three months ended | March 31, 2021 | March 31, 2020 |
|---------------------------------------|----------------|----------------|
| Net loss and comprehensive loss | \$ (2,382,409) | \$ (1,592,021) |
| Add back: | | |
| Right of use asset depreciation | 231,284 | 172,013 |
| Depreciation and amortization | 445,149 | 367,331 |
| Share-based compensation | 99,818 | 45,498 |
| Loss on marketable securities | - | 354,166 |
| Net gain on leases | - | (210,005) |
| Financial guarantee liability expense | 86,378 | 43,882 |
| Finance income | (480,384) | (259,459) |
| Interest expense (accretion) - leases | 679,028 | 461,081 |
| Interest expense | 272,119 | 303,333 |
| Revaluation loss on derivative | 1,319,422 | - |
| Convertible debenture accretion | 242,709 | 179,934 |
| Adjusted EBITDA | \$ 513,114 | \$ (134,247) |

Forward-Looking Information

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 is typically, but not always, identified by the use of words such as "will", "expected" and similar words, including negatives thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking information in this news release includes, but is not limited to, statements regarding: the recently announced transaction with Sundial Growers (the "**Transaction**") being completed early in the third quarter of 2021,



and the benefits thereof; and the Company expecting to achieve its 100th Spiritleaf retail cannabis store this summer.

Such forward-looking information is based on various assumptions and factors that may prove to be incorrect, including, but not limited to, factors and assumptions with respect to: the ability of the Company to successfully implement its strategic plans and initiatives and whether such strategic plans and initiatives will yield the expected benefits; the Transaction being completed on the timelines and on the terms currently anticipated; all necessary shareholder, court and regulatory approvals being obtained on the timelines and in the manner currently anticipated; the anticipated benefits of the Transaction; and the receipt by the Company and its franchise partners of necessary retail cannabis licences, approvals and authorizations from regulatory authorities, and the timing thereof.

Although the Company believes that the assumptions and factors 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 it will prove to be correct or that any of the events anticipated by such forward-looking information will transpire or occur, or if any of them do so, what benefits the Company will derive therefrom. Actual results could differ materially from those currently anticipated due to a number of factors and risks including, but not limited to: conditions in the cannabis industry; the risk that the Transaction is not completed as anticipated or at all, including the timing thereof, and if completed, that the benefits thereof will not be as anticipated; the risk that necessary shareholder, court or regulatory approvals are not obtained as anticipated or at all, and the timing thereof; the risk that the conditions to closing of the Transaction are not satisfied or waived; risks associated with general economic conditions; adverse industry events; future legislative, tax and regulatory developments, including developments that may impact the closing of the Transaction as anticipated or at all; the risk that the Company and its franchisees do not receive the necessary retail cannabis licences or that they are not able to open additional retail cannabis stores as anticipated or at all; the ability of management to execute its business strategy, objectives and plans; the availability of capital to fund the build-out and opening of additional corporate and franchised retail cannabis stores; and the impact of general economic conditions and the COVID-19 pandemic in Canada.

Additional information regarding risks and uncertainties relating to the Company's business are contained under the heading "Risk Factors" in the Company's annual information form for the financial year ended December 31, 2019 dated February 12, 2021. The forward-looking information included in this news release is made as of the date of this news release and the Company does not undertake an obligation to publicly update such forward-looking information to reflect new information, subsequent events or otherwise, except as required by applicable law.

For further information

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