



FOR IMMEDIATE RELEASE

## **Inner Spirit Holdings Announces Year-End 2020 Financial Results Highlighted by Fourth Quarter Revenue of \$9.2 Million and Net Income of \$1.1 Million**

*Canada's largest single brand network of recreational cannabis stores adding Spiritleaf locations in Toronto and Owen Sound, Ontario to reach total of 82 stores across the country*

**CALGARY, Alberta (March 25, 2021)** – Inner Spirit Holdings Ltd. (“**Inner Spirit**” or the “**Company**”) (CSE:ISH), a Canadian company that has established a national network of Spiritleaf retail cannabis stores, today announced it has filed its Audited Consolidated Financial Statements and corresponding Management’s Discussion and Analysis for the year ended December 31, 2020. The filings are available for review on the Company’s SEDAR profile at [www.sedar.com](http://www.sedar.com) and the Company’s website at [www.innerspiritholdings.com](http://www.innerspiritholdings.com).

### **FINANCIAL RESULTS**

Inner Spirit reported the following financial highlights for the year ended December 31, 2020. 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 \$26.8 million, an increase of 244% compared with \$7.8 million in 2019.
- Royalty revenue was \$4.2 million, an increase of 217% compared with \$1.3 million in 2019. The increase in franchise royalties collected by Inner Spirit illustrates the rapid growth of the Spiritleaf network and highlights the benefits of the franchise model.
- System-wide retail sales<sup>1</sup> was \$105.3 million, an increase of 258% compared with \$29.4 million in 2019. 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 franchised Spiritleaf retail cannabis store revenue forming part of the system-wide retail sales.
- Gross profit was \$12.7 million or a gross margin of 47.2%, an increase of \$8.9 million compared with \$3.7 million or a gross margin of 47.9% in 2019.
- Operating loss before other expenses was \$0.1 million, an improvement of \$6.3 million compared with \$6.4 million in 2019.
- Total net loss was \$3.1 million, or \$0.01 per share, compared with \$11.3 million, or \$0.06 per share, in 2019<sup>2</sup>.
- Adjusted EBITDA<sup>1</sup> was \$3.4 million, an improvement of \$8.2 million compared with an Adjusted EBITDA<sup>1</sup> loss of \$4.8 million in 2019.
- Cash flow provided by operations was \$4.2 million, an improvement of \$9.3 million compared with cash flow used in operations of \$5.2 million in 2019.
- Cash increased to \$4.7 million as at December 31, 2020, compared with \$2.0 million as at December 31, 2019.

Inner Spirit reported the following financial highlights for the quarter ended December 31, 2020. Again, 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 \$9.2 million, an increase of 174% compared with \$3.3 million in the fourth quarter of 2019.
- System-wide retail sales<sup>1</sup> was \$36.6 million, an increase of 164% compared with \$13.9 million in the fourth quarter of 2019. 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.



- Total net income was \$1.1 million, an improvement of \$5.1 million compared with a total net loss of \$4.0 million in the fourth quarter of 2019<sup>2</sup>.

“The Company’s financial results for 2020 show excellent year over year growth as we posted record revenue of \$26.8 million for the year and in the fourth quarter were able to achieve net income of \$1.1 million. Our now-proven ability to manage costs and operate efficiently as we build out the Spiritleaf network of stores bodes well for our future success,” said Darren Bondar, President and CEO of Inner Spirit.

#### *BOUGHT DEAL OFFERING*

Subsequent to the year-end, Inner Spirit announced a bought deal offering (the "**Offering**") on February 17 and 18, 2021, which is expected to close on or about March 31, 2021. The Company intends to use the proceeds of the Offering to build out additional corporate Spiritleaf retail cannabis stores in select markets as well as for strategic, working capital and general corporate purposes.

#### *NETWORK EXPANSION*

The Company has developed a proven model of opening and operating Spiritleaf retail cannabis stores in key markets across Canada. In 2020, the Company opened 30 corporate and franchise Spiritleaf stores in British Columbia, Alberta, Saskatchewan, Ontario, and Newfoundland and Labrador. As of this weekend, an additional 14 corporate and franchise stores will have been opened so far in 2021. The Company recently opened a franchised store in Owen Sound, Ontario and plans to open a franchised store in downtown Toronto on the busy thoroughfare of Queen Street West this weekend. With the additions, Spiritleaf will have 25 locations serving communities in Ontario and a total of 82 locations across the country.

“We’re 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 attracts entrepreneurs to invest their hard-earned capital in the Spiritleaf opportunity and to represent the brand in their communities. We have additional Spiritleaf store locations being prepared to open across the country and expect to exceed 100 stores by the end of the year,” said Bondar.

New Spiritleaf stores are expected to open in the Company’s existing markets of British Columbia, Alberta, Saskatchewan, Ontario, and Newfoundland and Labrador as well as in Manitoba in 2021.

#### *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 230,000 members, streamlines and individualizes the shopping experience for guests. Please visit [www.spiritleaf.ca](http://www.spiritleaf.ca) for information on store openings, locations and operating hours.

“The Company certainly didn’t experience anything near a normal retail environment in 2020 due to the ongoing pandemic. Our Spiritleaf franchise partners and employees have been instrumental in keeping the organization focused and able to serve our communities and our customers to the best of our ability and in a safe manner at all times. These efforts enabled us to achieve many goals in 2020 as we became the largest single brand cannabis retailer in the country while delivering a truly authentic Spiritleaf experience to our customers,” said Bondar.

<sup>1</sup> System-wide retail sales and Adjusted EBITDA are non-IFRS financial measures. For more details, see the "*Non-IFRS Financial Measures*" section below.

<sup>2</sup> 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.



## **About Inner Spirit**

Inner Spirit Holdings Ltd. (CSE:ISH) is a franchisor and operator of Spiritleaf recreational cannabis stores across Canada. The Spiritleaf network includes 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 including its Origins private label offering. The Company is led by passionate advocates for cannabis who have years of retail, franchise and consumer marketing experience. Spiritleaf holds a Franchisees' Choice Designation from the Canadian Franchise Association for its award-winning national support centre. The Company's key industry partners and investors include Auxly Cannabis Group Inc. (TSX.V:XLY), HEXO Corp (TSX:HEXO) (NYSE:HEXO), and Prairie Merchant Corporation. Learn more at [www.innerspiritholdings.com](http://www.innerspiritholdings.com) and [www.spiritleaf.ca](http://www.spiritleaf.ca).

## **Prior Period Restatement**

The Company has restated its December 31, 2019 comparative period to correct an accounting error treatment of the initial measurement and recognition of the convertible debentures issued in the second quarter of 2019. On review of the accounting treatment, management determined that the conversion feature of the convertible debt breached the fixed for fixed criteria under IFRS (as defined below) and thus met the definition of a derivative, which is required to be adjusted to fair value at each subsequent reporting date. The net impact to the consolidated financial statements for the year ended December 31, 2019 is a decrease to share capital of \$497,212, an increase to derivative conversion liability of \$267,467 and a decrease to net loss of \$225,745. The full effect of this restatement can be found in Note 26 of the Audited Consolidated Financial Statements for the year ended December 31, 2020.

## **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.



	3 Months ended December 31,		Years ended December 31,	
	2020	2019 (restated)	2020	2019 (restated)
System-Wide Retail Sales	\$ 36,628,028	\$ 13,857,808	\$ 105,286,746	\$ 29,397,606
Less:				
Franchise store sales	(30,140,269)	(11,855,193)	(86,915,232)	(26,226,831)
Add back:				
Royalties	1,393,241	604,056	4,207,269	1,328,301
Advertising	306,368	120,811	885,100	265,662
Millwork	741,677	368,312	1,931,135	1,930,884
Franchise fee	172,500	148,850	510,000	565,100
Supply and other	49,555	(67,614)	894,030	534,310
Revenue	\$ 9,151,100	\$ 3,177,030	\$ 26,799,048	\$ 7,795,032

#### 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, 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.

Years ended December 31,	2020	2019 (restated)
Net loss and comprehensive loss	\$ (3,095,418)	\$ (11,295,424)
Add back:		
Right of use asset depreciation	712,138	809,184
Depreciation and amortization	1,555,972	825,502
Impairment loss on intangible assets	508,622	-
Share-based compensation	684,517	687,067
Unrealized loss on marketable securities	-	1,170,789
Realized loss (gain) on marketable securities	361,492	(73,634)
Unrealized loss on investment	-	78,276
Net gain on leases	(493,470)	(3,842)
Financial guarantee liability expense (income)	(49,534)	305,921
Finance income	(1,257,073)	(234,930)
Interest expense (accretion) - leases	2,017,923	1,190,988
Interest expense	1,103,217	862,190
Issuance cost expense	-	61,182
Revaluation gain (loss) on derivative	50,218	(290,926)
Convertible debenture accretion	1,260,916	1,105,892
Adjusted EBITDA	\$ 3,359,520	\$ (4,801,765)



## **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”, “anticipated” 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 expected closing of the Offering on or about March 31, 2021, and the use of proceeds thereof; the Company expecting to exceed 100 stores by the end of the year; and the expected opening of new Spiritleaf stores in Ontario as well as British Columbia, Alberta, Saskatchewan, Manitoba, and Newfoundland and Labrador in 2021.

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 ability of the Company to complete the Offering on acceptable terms or at all, and the timing thereof; 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; fluctuations in market conditions, including in securities markets; the risk that the Offering will not be completed as anticipated or at all, including the risk that the Company will not receive the approvals necessary in connection with the Offering; 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**

Darren Bondar, President and CEO

Email: [invest@spiritleaf.ca](mailto:invest@spiritleaf.ca)

Phone: 1 (403) 930-9300

[www.innerspiritholdings.com](http://www.innerspiritholdings.com)