

Inner Spirit Holdings Announces Second Quarter 2019 Financial Results

Spiritleaf poised to be second largest national cannabis retailer with 33 stores operating or licensed and preparing to open

CALGARY, Alberta (August 27, 2019) – Inner Spirit Holdings Ltd. (“**Inner Spirit**” or the “**Company**”) (CSE:ISH), a Canadian company establishing a national network of retail cannabis stores under its Spiritleaf brand, today announced it has filed its interim Financial Statements and corresponding Management’s Discussion and Analysis for the quarter ended June 30, 2019. The filings are available for review on the Company’s SEDAR profile at www.sedar.com as well as on the Company’s website at www.innerspiritholdings.com.

“The lifting of the moratorium on cannabis retail store licences by Alberta Gaming, Liquor and Cannabis (the “AGLC”) during the second quarter was precisely the springboard needed for Spiritleaf to advance its business strategy. We also completed an over-subscribed \$10 million financing in the quarter to help us further support the Spiritleaf franchise network as well as open corporate-owned retail cannabis stores in select locations. During the second quarter, we had six Spiritleaf cannabis retail stores open, operating and generating financial results for the full period. By the end of the third quarter, we’re projecting our operations to include up to 33 Spiritleaf retail cannabis stores, of which eight will be corporate-owned outlets,” said Darren Bondar, President and CEO of Inner Spirit.

During the second quarter ended June 30, 2019, Inner Spirit reported the following highlights:

- Total revenue was \$1,775,881, an increase of 45% from \$1,224,975 in the second quarter of 2018.
- Royalty revenue was \$258,680, an increase of 509% from \$42,483 for the same period of 2018.
- System-wide retail sales¹ was \$6,684,484, an increase of 205% from \$2,192,757 in the second quarter of 2018. This included \$4,626,946 from operating Spiritleaf stores and \$2,057,538 from the Company’s Watch It! retail operation.
- Gross margin improved to 50.8% compared with 47.9% for the same period of 2018.
- Total net loss was \$2,809,683, or \$0.02 per share, compared with \$1,900,412, or \$0.03 per share, in the second quarter of 2018. Approximately \$1,000,000 of the loss was associated with costs incurred to complete the Offering (as defined below).
- Working capital position (current assets minus current liabilities) was \$8,513,083 at June 30, 2019, an increase of 38% from \$6,154,122 at December 31, 2018

Corporate Highlights

- The Company’s partner was one of the first to open a cannabis retail store in Ontario on April 1, 2019. The Spiritleaf-branded cannabis retail store is located at 27 Princess Street in the historic Smith Robinson building in Kingston.
- The Company completed a brokered offering (the “**Offering**”) of senior secured convertible debenture units resulting in gross proceeds to the Company of \$10 million. The Offering was completed through a syndicate of agents, co-led by Acumen Capital Finance Partners Limited, as sole bookrunner, and Canaccord Genuity Corp., with Burstall LLP acting as legal counsel to the Company.
- The Company opened its first two corporate-owned retail cannabis stores in Edmonton’s celebrated arts and cultural community of Old Strathcona, located on Whyte Avenue, and in Calgary’s downtown Beltline district.
- The Company completed the second tranche of its previously announced cross-investment with Tilray, Inc. (“**Tilray**”) (NASDAQ:TLRY) and its wholly owned subsidiary High Park Holdings Ltd. Pursuant to the terms of the investment agreement entered into in December 2018, as amended, Tilray and Inner Spirit exchanged shares valued at \$1.5 million.

Following completion of the second quarter ended June 30, 2019, the Company has achieved the following additional highlights:

- The AGLC issued 20 additional retail cannabis licences to Spiritleaf retail cannabis stores in Alberta, of which 14 were issued for franchised retail cannabis stores and six for corporate-owned retail cannabis stores. This brings the total amount of licences awarded to Spiritleaf locations in Alberta to 27.
- The Company was the first national retail brand to open a recreational cannabis store in British Columbia and the first in the Okanagan region. The Company has now opened four franchised Spiritleaf retail cannabis stores in British Columbia, in the cities of Vernon, Penticton, Castlegar and Maple Ridge. Two additional stores are expected to open in Kelowna and West Kelowna later this year.
- The Company has recorded more than \$12,000,000 in system-wide retail sales¹ from its operating Spiritleaf stores since the legalization of cannabis in Canada on October 17, 2018. The Spiritleaf retail

cannabis store network is poised to be second largest in Canada with 33 Spiritleaf retail cannabis stores open and operating or licensed and preparing to open. Please visit www.spiritleaf.ca for information on the stores, including operating hours and specific opening dates.

"We continue to implement our business strategy by efficiently and effectively opening franchised and corporate-owned Spiritleaf retail cannabis stores in key locations across the country. We are operating in four provinces and growing our brand presence with 33 Spiritleaf stores projected to be fully operating by the end of the third quarter and more than 40 by the end of this year. Our franchise model, bolstered by selectively located corporate stores in jurisdictions where they are permitted, is proving to be effective in helping us deliver top-quality retail shopping experiences to more than 250,000 Spiritleaf customers to date. We have strong support from our key strategic partners and shareholders – Auxly, HEXO and Tilray – and we remain laser-focused on expanding our retail network, enhancing our financial performance and creating value for shareholders," said Bondar.

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

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), and Tilray, Inc. (NASDAQ:TLRY). More information is available on Inner Spirit's website at 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 does 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 Company-owned 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", "poised", "set", "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 Spiritleaf retail cannabis store network becoming the second largest network in Canada; the establishment of Spiritleaf retail cannabis stores in Canada; the receipt of necessary licenses and permits to open retail cannabis stores and the timing thereof; and the Company's projections that it will have up to 33 Spiritleaf retail cannabis stores by the end of the third quarter of 2019, of which eight are anticipated to be corporate-owned outlets, and more than 40 Spiritleaf retail cannabis stores by the end of 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 the Spiritleaf retail cannabis stores currently intended to be opened do not open as anticipated or at all; the risk that the Company or its franchisees are not able to open additional Spiritleaf 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 it involves 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.

For further information

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