

EXPLANATORY NOTE

The Company's audited consolidated financial statements and related notes for the years ended December 31, 2022 and 2021, and 2020 (the "Annual Financial Statements") inadvertently omitted the report of the Company's former independent auditor, on the Company's consolidated statement of financial position as at December 31, 2021, the related consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2021, and the related notes, and had presented certain page numbers (beginning on page F-1) incorrectly.

The Annual Financial Statements included with this amendment do not present any new, amended, revised or restated financial information as compared to the Annual Financial Statements included in the original filing dated April 24, 2023. Other than as described above, this amendment does not amend, modify or update the information contained in the original filing, nor does it reflect any event that has occurred after the date of the original filing.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of SNDL Inc. (f/k/a Sundial Growers Inc.)

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of financial position of SNDL Inc. (the “Company”) as of December 31, 2022, the related consolidated statements of loss and comprehensive loss, changes in shareholders’ equity and cash flows for the year ended December 31, 2022, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 the results of its operations and its cash flows for the year ended December 31, 2022, in conformity with the International Financial Reporting Standards as issued by the International Accounting Standards Boards (“IFRS”).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013 and our report dated April 24, 2023 expressed an adverse opinion on the effectiveness of the Company’s internal control over financial reporting because of the existence of a material weakness.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Emphasis of Matter – Retrospective Adjustment to provisional amounts

The accompanying consolidated financial statements of the Company as of December 31, 2021 and for the year then ended were audited by another auditor. As described in Note 5(b), the Company recorded adjustments to the fair value in the third quarter of 2022 to reflect additional information and greater certainty with respect to management estimates pertaining to facts and circumstances that were either unknown or uncertain at the date of the Inner Spirit acquisition. These adjustments related to changes in preliminary valuation assumptions, including refinement of accounts receivable, inventory, net investment in subleases, lease liabilities and amounts allocated to intangible assets and deferred tax liability. All measurement period adjustments were offset to goodwill. We audited the retrospective adjustments to provisional amounts in the comparative December 31, 2021 period. However, we were not engaged to audit, review, or apply any procedures to the December 31, 2021 consolidated financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the December 31, 2021 consolidated financial statements taken as a whole.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Business Combinations

The Company acquired Alcanna, Inc. on March 31, 2022. The acquisition was accounted for as a business combination. We identified the evaluation of the acquisition date fair value of the intangible assets as a critical audit matter.

The main consideration for our determination that the evaluation of the acquisition date fair values of the intangible assets acquired was a critical audit matter is the high degree of subjective auditor judgement associated with evaluating management's determination of the fair values of the intangible assets, which is primarily due to complexity of the valuation models used and the sensitivity of the underlying significant assumptions. The assumptions used within the valuation models included prospective financial information, including future revenue growth and expected profitability, an applied discount rate, a reasonable approximation of a royalty rate and historical data pertaining to replacement costs. Auditing these assumptions involved extensive audit effort, including the need to involve our valuation specialists, due to the complexity of these assumptions and a high degree of auditor judgment when performing audit procedures and evaluating the results of those procedures.

How the Critical Audit Matter was addressed in the Audit

Our audit procedures related to the evaluation of acquisition date fair values of intangibles assets acquired included the following, among other:

- We evaluated the design effectiveness of certain controls over the acquisition date valuation process, including controls over the development of the key assumptions such as revenue growth and expected profitability, royalty rates, replacement costs and the applied discount rate.
- We obtained the purchase price allocation analyses from management and the third-party specialist engaged by management.
 - We assessed the qualifications and competence of management and the third-party specialist; and
 - We evaluated the methodologies used to determine the fair values of the intangible assets.
- We tested the assumptions used within the relief from royalty, cost and market approach models to estimate the fair values of the intangible assets, which included key assumptions such as the future revenue growth and profitability a reasonable approximation of a royalty rate and historical data pertaining to replacement costs and the applied discount rates.
- We assessed the reasonableness of management's forecast by inquiring with management to understand how the forecast was developed and comparing the projections to historical results.
- We assessed the reasonableness of managements consideration of identifiable intangible assets separable from goodwill.
- We involved an internal valuation specialist who assisted in the evaluation and testing performed of the reasonableness of significant assumptions to the models, including the applied discount rates.

Goodwill Impairment

Goodwill is assessed for impairment annually or when facts and circumstances indicate that it is possibly impaired. Goodwill is tested for impairment at a cash generating unit ("CGU") level by comparing the carrying amount to the recoverable amount, which is determined as the greater of fair value less costs of disposal and value in use. Any excess of the carrying amount over the recoverable amount is the impaired amount.

The main consideration for our determination that the impairment assessment is a critical audit matter is the complexity of auditing management's impairment assessment due to judgments and assumptions required to evaluate those factors. Auditing these assumptions involved extensive audit effort, including the need to involve our valuation specialists, due to the complexity of these assumptions and a high degree of auditor judgment when performing audit procedures and evaluating the results of those procedures.

How the Critical Audit Matter was addressed in the Audit

Our audit procedures related to accounting for impairment of goodwill and intangible assets to address this critical audit matter included the following, among others:

- We obtained an understanding and evaluated the design of the internal controls over management's annual impairment assessment, including identification of CGU's

- We obtained the goodwill impairment analyses from management and the third-party specialist engaged by management.
 - We assessed the qualifications and competence of management and the third-party specialist; and
 - We evaluated the methodologies used to determine the fair values of the intangible assets.
- We tested the assumptions used within the income approach and/or market approach to estimate the goodwill impairment, which included key assumptions such as future revenue growth, the applied discount rates, selected market multiples and the market capitalization.
- We assessed the reasonableness of management's forecast by inquiring with management to understand how the forecast was developed and comparing the projections to historical results.
- We involved an internal valuation specialist who assisted in the evaluation and testing performed of the reasonableness of methodologies and significant assumptions to the models, including the applied discount rates.

Valuation of Equity-Accounted Investees

The Company's underlying investments in its equity-accounted investee is a joint venture through SunStream Bancorp Inc. (the "Joint Venture"). The Company records its interest in the Joint Venture using the equity method. The Joint Venture records its investments at fair value through profit and loss at each reporting period. The valuation of the investments held by the Joint Venture requires estimates, including market values of investment holdings and related underlying assumptions such as volatility and discount rates.

The main consideration for our determination that the fair value of the measurement of the Joint Venture's investment is a critical audit matter is the high degree of subjectivity and auditor judgement required to evaluate the estimates, including market values of investment holdings and related underlying assumptions such as volatilities and discount rates used to calculate the fair value of its investments. Auditing these assumptions involved extensive audit effort, including the need to involve our valuation specialists, due to the complexity of these assumptions and a high degree of auditor judgment when performing audit procedures and evaluating the results of those procedures.

How the Critical Audit Matter was addressed in the Audit

Our audit procedures related to valuation of equity-accounted investees to address this critical audit matter included the following, among others:

- We obtained the analysis from management and the third-party specialist engaged by management.
 - We assessed the qualifications and competence of management and the third-party specialist; and
 - We evaluated the methodologies used to determine the fair values of the intangible assets.
- We involved an internal valuation specialists who assisted in the evaluation and testing performed of the reasonableness of the methodologies used in estimating the fair value of the investments, estimates of market values, volatilities and discount rates by comparing to publicly available market data for comparable assets.

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2022.

New York
April 24, 2023

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of SNDL Inc. (formerly Sundial Growers Inc.)

Opinion on the Consolidated Financial Statements

We have audited, before the effects of the adjustments to retrospectively adjust the provisional amounts recorded for the fair value of the assets and liabilities acquired as part of the Inner Spirit Transaction described in Note 5(b), the consolidated statement of financial position of SNDL Inc. and subsidiaries (the Company) as of December 31, 2021, the related consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements). The 2021 consolidated financial statements before the effects of the adjustments described in Note 5(b) are not presented herein. In our opinion, the consolidated financial statements, before the effects of the adjustments to retrospectively adjust the provisional amounts recorded for the fair value of the assets and liabilities acquired as part of the Inner Spirit Transaction, described in Note 5(b), present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and its financial performance and its cash flows for each of the years in the two-year period ended December 31, 2021, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively adjust the provisional amounts recorded for the fair value of the assets and liabilities acquired as part of the Inner Spirit Transaction described in Note 5(b) and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by other auditors.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

We served as the Company's auditor from 2018 to 2022.

/s/ KPMG LLP

Chartered Professional Accountants
Calgary, Alberta
April 27, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders and Board of Directors of SNDL Inc. (f/k/a Sundial Growers Inc).

Adverse Opinion on Internal Control over Financial Reporting

We have audited SNDL Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness described in the following paragraph on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness have been identified and included in "Management's Annual Report on Internal Control Over Financial Reporting":

Information technology general controls (ITGCs) were not designed and operating effectively to ensure (i) that access to applications and data, and the ability to make program and job changes, were adequately restricted to appropriate personnel and (ii) that the activities of individuals with access to modify data and make program and job changes were appropriately monitored. Business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted.

This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the fiscal December 31, 2022 consolidated financial statements, and this report does not affect our report dated April 24, 2023 on those consolidated financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets as of December 31, 2022, the related consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the year ended December 31, 2022, and related notes of the Company, and our report dated April 24, 2023 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management Annual Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with International Financial Reporting Standards, as promulgated by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that degree of compliance with the policies or procedures may deteriorate.

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2022.

New York, NY

April 24, 2023



SNDL Inc.

Consolidated Financial Statements

For the years ended December 31, 2022 and 2021, and 2020

(Expressed in thousands of Canadian dollars)

SNDL Inc.
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

As at	Note	December 31, 2022	December 31, 2021 ⁽¹⁾
Assets			
Current assets			
Cash and cash equivalents		279,586	558,251
Restricted cash	7	19,338	27,013
Marketable securities	8	21,926	83,724
Accounts receivable	9	22,636	10,865
Biological assets	10	3,477	4,410
Inventory	11	127,782	29,503
Prepaid expenses and deposits		10,110	4,355
Investments	16	6,552	3,065
Assets held for sale	5(c), 13	6,375	2,998
Net investment in subleases	14	3,701	3,991
		501,483	728,175
Non-current assets			
Long-term deposits		8,584	7,725
Right of use assets	12	134,154	6,717
Property, plant and equipment	13	143,409	56,472
Net investment in subleases	14	19,618	22,571
Intangible assets ⁽¹⁾	15	74,885	50,148
Investments	16	90,702	70,498
Equity-accounted investees	17	519,255	412,858
Goodwill ⁽¹⁾	5	67,260	72,496
Total assets		1,559,350	1,427,660
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	18	48,153	38,452
Lease liabilities	20	30,206	5,701
Derivative warrants	19	11,002	21,700
		89,361	65,853
Non-current liabilities			
Lease liabilities	20	139,625	27,769
Other liabilities	21	2,709	4,505
Total liabilities		231,695	98,127
Shareholders' equity			
Share capital	23(b)	2,292,810	2,035,704
Warrants	23(c)	2,260	8,092
Contributed surplus		68,961	60,734
Contingent consideration		2,279	2,279
Accumulated deficit ⁽¹⁾		(1,091,999)	(785,112)
Accumulated other comprehensive income		32,188	7,607
Total shareholders' equity		1,306,499	1,329,304
Non-controlling interest	34	21,156	229
Total liabilities and shareholders' equity		1,559,350	1,427,660

(1) Adjustment to provisional amounts — refer to note 5(b).

Commitments (note 35)

Subsequent events (notes 8, 16, 17, 23(b), 24(c) and 36)

See accompanying notes to the consolidated financial statements.

Approved by the Board:

"Signed" *Bryan Pinney*

Director

"Signed" *Zachary George*

Director

SNDL Inc.
Consolidated Statements of Loss and Comprehensive Loss

(Expressed in thousands of Canadian dollars, except per share amounts)

				Year ended December 31 2020
	Note	2022	2021 ⁽¹⁾	
Gross revenue	25	729,694	67,279	73,321
Excise taxes		17,497	11,151	12,403
Net revenue		712,197	56,128	60,918
Cost of sales ⁽¹⁾	11	558,089	50,612	51,740
Inventory impairment and obsolescence	11	7,012	16,978	45,913
Gross margin before fair value adjustments		147,096	(11,462)	(36,735)
Change in fair value of biological assets	10	(1,309)	4,708	5,432
Change in fair value realized through inventory		(5,412)	(2,247)	(18,566)
Gross margin		140,375	(9,001)	(49,869)
Interest and fee revenue	26	16,739	13,149	—
Investment loss	26	(65,164)	(44,501)	—
Share of profit (loss) of equity-accounted investees	17	(43,002)	32,913	—
General and administrative ⁽¹⁾	27	140,168	38,043	32,029
Sales and marketing	27	8,417	5,043	5,737
Research and development		2,448	2,446	488
Depreciation and amortization ⁽¹⁾	5(b),12,13,15	40,945	5,287	4,711
Share-based compensation	24	9,671	12,307	8,566
Restructuring costs		(670)	874	6,470
Asset impairment	13,15	196,033	60,000	79,191
Government subsidies		—	(2,180)	(4,128)
Loss (gain) on cancellation of contracts		(290)	5,116	2,471
Loss from operations		(347,774)	(134,376)	(185,404)
Transaction costs		(1,352)	(17,566)	(3,587)
Finance costs, net	28	(41,314)	(3,756)	(3,819)
Change in estimate of fair value of derivative warrants	19	10,783	(77,834)	(12,995)
Foreign exchange gain (loss)		(19)	531	(1,000)
Gain (loss) on disposition of assets		(94)	235	488
Other expenses		—	(1,932)	—
Loss before income tax		(379,770)	(234,698)	(206,317)
Income tax recovery ⁽¹⁾	22	7,342	7,914	—
Net loss from continuing operations		(372,428)	(226,784)	(206,317)
Net loss from discontinued operations		—	—	(33,627)
Net loss		(372,428)	(226,784)	(239,944)
Equity-accounted investees - share of other comprehensive income, net of tax	17	24,581	7,607	—
Gain on translation of foreign operations		—	—	600
Comprehensive loss		(347,847)	(219,177)	(239,344)
Net loss from continuing operations attributable to:				
Owners of the Company ⁽¹⁾		(335,114)	(226,984)	(199,619)
Non-controlling interest		(37,314)	200	(6,698)
		(372,428)	(226,784)	(206,317)
Net income (loss) attributable to:				
Owners of the Company ⁽¹⁾		(335,114)	(226,984)	(233,246)
Non-controlling interest		(37,314)	200	(6,698)
		(372,428)	(226,784)	(239,944)
Comprehensive income (loss) attributable to:				
Owners of the Company ⁽¹⁾		(310,533)	(219,377)	(232,646)
Non-controlling interest		(37,314)	200	(6,698)
		(347,847)	(219,177)	(239,344)
Net loss per common share attributable to owners of the Company				
Basic and diluted	30	\$ (1.46)	\$ (1.22)	\$ (10.67)

(1) Adjustment to provisional amounts — refer to note 5(b).

See accompanying notes to the consolidated financial statements.

SNDL Inc.
Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of Canadian dollars)

						Accumulated	Accumulated	Non-	
	Note	Share capital	Warrants	Contributed surplus	Contingent consideration	deficit ⁽¹⁾	other comprehensive income	controlling interest	Total equity
Balance at December 31, 2019		509,654	27,831	30,192	2,279	(360,338)	6,866	4,714	221,198
Net loss		—	—	—	—	(233,246)	—	(6,698)	(239,944)
Other comprehensive income		—	—	—	—	—	600	—	600
Share issuances		176,931	—	—	—	—	—	—	176,931
Share issuance costs		(5,593)	—	—	—	—	—	—	(5,593)
Convertible debt - conversions		63,002	—	—	—	—	—	—	63,002
Derivative warrants exercised		55,912	—	—	—	—	—	—	55,912
Warrants issued		—	306	—	—	—	—	—	306
Warrants expired		—	(21,999)	21,999	—	—	—	—	—
Dispositions		(38,447)	—	—	—	35,456	(7,466)	—	(10,457)
Share-based compensation		52	—	7,688	—	—	—	—	7,740
Employee awards exercised		535	—	(535)	—	—	—	—	—
Balance at December 31, 2020		762,046	6,138	59,344	2,279	(558,128)	—	(1,984)	269,695
Net loss ⁽¹⁾		—	—	—	—	(226,984)	—	200	(226,784)
Other comprehensive income		—	—	—	—	—	7,607	—	7,607
Loss of control of subsidiary		—	—	—	—	—	—	2,013	2,013
Share issuances	23(b)	977,425	—	—	—	—	—	—	977,425
Share issuance costs	23(b)	(16,371)	—	—	—	—	—	—	(16,371)
Derivative warrants exercised		277,136	—	—	—	—	—	—	277,136
Acquisition	5(b)	26,216	1,771	—	—	—	—	—	27,987
Convertible debenture settlement	5(b)	2,671	—	—	—	—	—	—	2,671
Warrants issued	23(c)	—	361	—	—	—	—	—	361
Warrants exercised	23(c)	178	(178)	—	—	—	—	—	—
Share-based compensation	24	8	—	12,715	—	—	—	—	12,723
Employee awards exercised		6,395	—	(6,194)	—	—	—	—	201
Modification of equity-settled plan		—	—	(5,131)	—	—	—	—	(5,131)
Balance at December 31, 2021		2,035,704	8,092	60,734	2,279	(785,112)	7,607	229	1,329,533
Net loss		—	—	—	—	(335,114)	—	(37,314)	(372,428)
Other comprehensive income		—	—	—	—	—	24,581	—	24,581
Share issuances	23(b)	2,870	—	—	—	—	—	—	2,870
Share repurchases	23(b)	(41,617)	—	—	—	28,227	—	—	(13,390)
Share issuances by subsidiaries		—	—	72	—	—	—	43	115
Acquisition	5(a)	287,129	—	—	—	—	—	58,222	345,351
Warrants expired	23(c)	—	(5,832)	5,832	—	—	—	—	—
Share-based compensation	24	—	—	11,047	—	—	—	—	11,047
Employee awards exercised		8,724	—	(8,724)	—	—	—	—	—
Distribution declared by subsidiaries		—	—	—	—	—	—	(24)	(24)
Balance at December 31, 2022		2,292,810	2,260	68,961	2,279	(1,091,999)	32,188	21,156	1,327,655

(1) Adjustment to provisional amounts — refer to note 5(b).

See accompanying notes to the consolidated financial statements.

SNDL Inc.
Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Note	2022	2021 ⁽¹⁾	Year ended December 31 2020
Cash provided by (used in):				
Operating activities				
Net loss for the period ⁽¹⁾		(372,428)	(226,784)	(206,317)
Adjustments for:				
Income tax recovery ⁽¹⁾	22	(7,342)	(7,914)	—
Interest and fee revenue	26	(16,739)	—	—
Change in fair value of biological assets		1,309	(4,708)	(5,432)
Share-based compensation	24	9,671	12,307	8,566
Depreciation and amortization ⁽¹⁾	13,15	47,322	10,164	11,582
Loss (gain) on disposition of assets	13	94	(235)	(488)
Inventory obsolescence	11	7,012	16,978	45,913
Finance costs	28	41,314	3,716	(3,734)
Change in estimate of fair value of derivative warrants	19	(10,783)	77,834	12,995
Loss on cancellation of contracts		—	2,870	671
Unrealized foreign exchange (gain) loss		(16)	(63)	(757)
Restructuring costs		—	—	448
Warrants issued for services		—	—	306
Asset impairment	5(b),12,13,15	196,033	60,000	79,191
Share of (profit) loss of equity-accounted investees	17	43,002	(32,913)	—
Other expenses		—	1,864	—
Gain on disposition of marketable securities	8,26	—	(20,213)	—
Unrealized loss on marketable securities	8,26	65,553	64,714	—
Additions to marketable securities	8	(3,500)	(158,101)	—
Proceeds from disposal of marketable securities	8	—	29,876	—
Income distributions from equity-accounted investees		1,661	15,021	—
Interest received		13,403	—	—
Exercise of cash-settled deferred share units		(204)	(315)	—
Change in non-cash working capital	29	(22,073)	150	(5,259)
Net cash used in operating activities from continuing operations		(6,711)	(155,752)	(62,315)
Net cash provided by operating activities from discontinued operations		—	—	4,820
Net cash used in operating activities		(6,711)	(155,752)	(57,495)
Investing activities				
Additions to property, plant and equipment	13	(10,666)	(3,793)	(3,024)
Additions to intangible assets	15	(197)	—	(150)
Additions to investments	16	(75,598)	(24,206)	(51,876)
Additions to equity-accounted investees	17	(119,137)	(395,569)	—
Capital distributions from equity-accounted investees		—	10,481	—
Proceeds from disposal of property, plant and equipment		4,000	194	2,109
Acquisition, net of cash acquired	5	(28,640)	(82,775)	—
Change in non-cash working capital	29	74	(612)	(11,319)
Net cash used in investing activities from continuing operations		(230,164)	(496,280)	(64,260)
Net cash used in investing activities from discontinued operations		—	—	(6,617)
Net cash used in investing activities		(230,164)	(496,280)	(70,877)
Financing activities				
Proceeds from convertible notes, net of costs		—	—	18,070
Change in restricted cash	7	7,675	(21,680)	10,494
Payments on lease liabilities, net		(27,693)	(1,008)	(420)
Repurchase of common shares, net of costs	23(b)	(13,390)	—	—
Proceeds from issuance of shares and registered offerings, net of costs	23(b)	22	1,062,310	181,841
Distributions declared by subsidiaries		(24)	—	—
Proceeds from exercise of derivative warrants		—	119,318	20,391
Proceeds from exercise of employee warrants		—	201	—
Repayment of long-term debt	5(a)	(10,000)	—	(84,493)
Convertible debenture settlement		—	(9,354)	—
Payment on exercise of contingent consideration warrants		—	(219)	—
Change in non-cash working capital	29	1,620	348	(2,498)
Net cash (used in) provided by financing activities from continuing operations		(41,790)	1,149,916	143,385
Net cash used in financing activities from discontinued operations		—	—	(639)
Net cash (used in) provided by financing activities		(41,790)	1,149,916	142,746
Effect of exchange rate changes on cash held in foreign currency		—	(9)	665
Change in cash and cash equivalents		(278,665)	497,875	15,039
Cash and cash equivalents, beginning of year		558,251	60,376	45,337
Cash and cash equivalents, end of year		279,586	558,251	60,376

(1) Adjustment to provisional amounts — refer to note 5(b).

See accompanying notes to the consolidated financial statements.

SNDL Inc.**Notes to the Consolidated Financial Statements**

For the year ended December 31, 2022

(Expressed in thousands of Canadian dollars, except where otherwise noted)

1. DESCRIPTION OF BUSINESS

SNDL Inc. ("SNDL" or the "Company") was incorporated under the *Business Corporations Act* (Alberta) on August 19, 2006. On July 25, 2022, the Company's shareholders approved a special resolution amending the articles of SNDL to change the name of the Company from "Sundial Growers Inc." to "SNDL Inc."

The Company's head office is located at 300, 919 11th Avenue SW, Calgary, Alberta, Canada.

The principal activities of the Company are the retailing of wines, beers and spirits, the operation and support of corporate-owned and franchise retail cannabis stores in Canadian jurisdictions where the private sale of recreational cannabis is permitted, the production, distribution and sale of cannabis domestically and for export pursuant to the *Cannabis Act* (Canada) (the "Cannabis Act"), and the deployment of capital to investment opportunities. The Cannabis Act regulates the production, distribution, and possession of cannabis for both medical and adult recreational access in Canada. The Company also owns approximately 63% of Nova Cannabis Inc. ("Nova") (TSX: NOVC), whose principal activities are the retail sale of cannabis.

SNDL and its subsidiaries currently operate solely in Canada. Through its joint venture, SunStream Bancorp Inc. ("SunStream") (note 17), the Company provides growth capital that pursues indirect investment and financial services opportunities in the global cannabis sector, as well as other investment opportunities. The Company also makes strategic portfolio investments in debt and equity securities.

The Company's common shares trade on the Nasdaq Capital Market ("Nasdaq") under the ticker symbol "SNDL".

2. BASIS OF PRESENTATION**A) STATEMENT OF COMPLIANCE**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect as of December 31, 2022.

These consolidated financial statements were approved and authorized for issue by the board of directors of SNDL (the "Board") on April 24, 2023.

B) BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on a historical cost basis, except for biological assets, deferred share units ("DSUs") and certain financial instruments (note 31(a)) which are measured at fair value with changes in fair value recorded in earnings.

C) FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its Canadian-based subsidiaries. Sundial Deutschland GmbH uses the European Euro as its functional currency. The Company's equity-accounted joint venture uses the United States dollar as its functional currency. Transactions in currencies other than the functional currency are translated at the rate prevailing at the date of transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Income and expense amounts are translated at the dates of the transactions.

In preparing the Company's consolidated financial statements, the financial statements of foreign subsidiaries and the foreign equity-accounted joint venture are translated into Canadian dollars, the functional currency of the Company. The assets and liabilities of foreign operations that do not have a functional currency of Canadian dollars, are translated into Canadian dollars using exchange rates at the reporting date. Revenues and expenses of foreign operations are translated into Canadian dollars using foreign exchange rates that approximate those

on the date of the underlying transactions. Foreign exchange differences from the translation of foreign subsidiaries and the foreign equity-accounted joint venture into Canadian dollars are recognized in other comprehensive income ("OCI"). The Company's consolidated financial statements include its share of the Canadian dollar profit or loss and OCI of the equity-accounted joint venture.

D) BASIS OF CONSOLIDATION

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases. All intercompany balances, income and expenses and unrealized gains and losses resulting from intercompany transactions are eliminated upon consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term liquid investments with maturities of less than 90 days.

RESTRICTED CASH

Restricted cash is recorded as current assets representing (i) a cash balance to satisfy margin requirements on the Company's option trading positions, if any, and (ii) minimum funding requirements for two separate captive insurance structures.

BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants. The Company capitalizes all direct and indirect costs related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest, including labour-related costs, consumables, materials, utilities, facilities costs, depreciation and quality and testing costs. Biological assets are then recorded at fair value and consist of cannabis plants in various stages of vegetation, including cannabis clones which have not been harvested. Net unrealized changes in fair value of biological assets less costs to sell during the period are included in the results of operations for the related period. Biological assets are valued in accordance with International Accounting Standard 41 – Agriculture ("IAS 41") and are presented at their fair values less costs to sell up to the point of harvest. The fair values are determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts the amount for the expected selling price less costs to produce and sell per gram. The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest. The estimated expected harvest yield is based on assumptions of the estimated yield per plant and the weighted average number of growing weeks completed as a percentage of total expected growing weeks as at year end. These estimates are subject to volatility in market prices, market conditions, yields and costs, which could significantly affect the fair value of biological assets in future periods. Differences from the anticipated yield will be reflected in the net change in fair value of biological assets in future periods.

INVENTORY

HARVESTED CANNABIS

Inventories of harvested cannabis are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell up to the point of harvest, which becomes the initial deemed cost. All subsequent direct and indirect post-harvest costs are capitalized to inventory as incurred, including labour-related costs, consumables, materials, packaging supplies, utilities, facilities costs, as well as quality and testing costs. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cannabis supplies and consumables are initially valued at cost and subsequently at the lower of cost and net realizable value.

The valuation of biological assets at the point of harvest is used as the measurement basis for all cannabis-based inventory and, thus, any critical estimates and judgements related to the valuation of biological assets are also applicable to inventory. The valuation of work-in-progress and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount of the inventory.

RETAIL INVENTORY

Retail inventory at Company-owned stores is valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of selling the final product. Cost is determined using the weighted average method and comprises direct purchase costs. Inventory is written down to its net realizable value when the cost of inventory is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. The Company makes estimates related to obsolescence, future selling prices, seasonality, customer behavior and fluctuations in inventory levels.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment ("PP&E") are carried at cost less accumulated depreciation, less any recognized impairment losses. The cost of additions, betterments, renewals, and interest during construction is capitalized. Each part of a component of PP&E with a cost that is significant in relation to the total cost of the component is depreciated separately. When the cost of replacing a portion of a component of PP&E is capitalized, the carrying amount of the replaced component is derecognized.

Depreciation of construction in progress assets commences when the assets are ready for their intended use or when a Health Canada producer's licence is granted. The assets' residual values and useful lives are reviewed, and adjusted as appropriate, at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by adjusting the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Any gain or loss arising on the disposal or retirement of a component of PP&E is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in profit and loss.

PP&E are depreciated as they become available for use. Buildings are not depreciated until a producer's licence is obtained, if required for operation. For assets available for use, depreciation is computed using the straight-line method over the estimated useful lives of the assets, as described below:

- Production facilities — 20 years
- Equipment — 1 to 10 years
- Right of use assets and leasehold improvements — Shorter of estimated useful life or lease term

INTANGIBLE ASSETS

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangibles is provided on a straight-line basis over their estimated useful lives, once the intangible asset is available

for use, as described below. If the intangible asset is not yet available for use it will be tested for impairment on an annual basis in accordance with International Accounting Standard 38 – Intangible Assets ("IAS 38").

The Company's intangible assets are comprised of the following:

- Intellectual property purchased from Sun 8 Holdings Inc. in 2019 consisting of world-wide proprietary rights to certain cannabis brands, including patents, copyrights and trademarks with a useful life of 15 years.
- Intellectual property purchased from a private company consisting of world-wide proprietary rights to certain cannabis strains with a useful life of 12 years.
- Intellectual property acquired through the acquisition of Inner Spirit (as defined below) consisting of a trade name with an indefinite life and franchise agreements with useful lives of 8 years.
- Intangible assets acquired through the acquisition of Alcanna consisting of brands, licenses, permits and software.

JOINT ARRANGEMENTS

Joint arrangements represent activities where the Company has joint control established by a contractual agreement. Joint control requires unanimous consent for the relevant financial and operational decisions. A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets.

For a joint operation, the parties consolidate their proportionate share of the assets, liabilities, revenues, expenses and cash flows of the arrangement with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

Joint ventures are accounted for using the equity method of accounting and are initially recognized at cost, or fair value if acquired as part of a business combination. Joint ventures are adjusted thereafter for the post-acquisition change in the Company's share of the equity accounted investment's net assets. The Company's consolidated financial statements include its share of the equity accounted investment's profit or loss and other comprehensive income, until the date that joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee. Distributions from and contributions to investments in equity accounted investees are recognized when received or paid.

INTERESTS IN EQUITY-ACCOUNTED INVESTEEES

The Company's interest in equity-accounted investees comprise interests in an associate and a joint venture.

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

IMPAIRMENT OF ASSETS

Management assesses and continually monitors internal and external indicators of impairment relating to the Company's assets. The assessment of indicators of impairment takes into account various factors including the likelihood of obtaining and maintaining future licences from Health Canada, the demand for cannabis for recreational purposes, the price of cannabis, and changes in market discount rates.

(I) FINANCIAL ASSETS

The Company applies an expected credit loss ("ECL") model to all financial assets not held at fair value through profit and loss ("FVTPL") where credit losses that are expected to transpire in futures years are provided for, irrespective of whether a loss event has occurred or not as at the statement of financial position date. For trade receivables, the Company has applied the simplified approach under International Financial Reporting Standard 9 – Financial Instruments ("IFRS 9") and have calculated ECLs based on lifetime expected credit losses, taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due in accordance with the contract and the cash flow the Company expects to receive. ECLs are discounted at the effective interest rate of the financial asset. For financial assets measured at amortized cost, the Company has applied the general approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses, taking into consideration whether the credit risk of a financial asset has increased significantly since initial recognition. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment, that includes forward-looking information.

(II) NON-FINANCIAL ASSETS

The carrying amounts of the Company's PP&E, right of use assets and intangible assets, including goodwill, are assessed for impairment indicators and impairment reversal indicators at each reporting period end to determine whether there is an indication that such assets have experienced impairment or impairment reversal. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss or impairment reversal, if any.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's or group of asset's estimated fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable independent cash inflows (a cash generating unit ("CGU")).

Where an impairment loss is subsequently determined to have reversed, the carrying amount of the asset or CGU is adjusted to the revised estimate of its recoverable amount but limited to the carrying amount that would have been determined had no impairment loss been recognized previously. A reversal of an impairment loss, net of any depreciation that would have been recorded, is recognized immediately in the statements of loss and comprehensive loss. Impairments of goodwill are not reversed.

FINANCIAL INSTRUMENTS

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instruments:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset or liability is measured initially at fair value plus, for an item not measured at FVTPL, transaction costs that are directly attributable to its acquisition or issuance.

(I) FINANCIAL ASSETS

At initial recognition, a financial asset is classified and measured at: amortized cost, FVTPL or fair value through other comprehensive income ("FVOCI") depending on the business model and contractual cash flows of the instrument.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. A substantial modification to the terms of an existing financial asset results in the derecognition of the financial asset and the recognition of a new financial asset at fair value. In the event that the modification to the terms of an existing financial asset do not result in a substantial difference in the contractual cash flows the gross carrying amount of the financial asset is recalculated and the difference resulting from the adjustment in the gross carrying amount is recognized in profit or loss.

The Company's cash and cash equivalents, restricted cash and accounts receivable are measured at amortized cost. The Company's marketable securities are measured at FVTPL. The Company's long-term investments are measured at amortized cost and FVTPL. The Company has no financial assets measured at FVOCI.

(II) FINANCIAL LIABILITIES

Financial liabilities are initially measured at amortized cost or FVTPL. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less any required discount to reduce the payables to fair value. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense and foreign exchange gains and losses, are recognized in profit or loss.

Financial liabilities are derecognized when the liability is extinguished. A substantial modification of the terms of an existing financial liability is recorded as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished and the consideration paid is recognized in profit or loss. Where a financial liability is modified in a way that does not constitute an extinguishment, the modified cash flows are discounted at the liability's original effective interest rate. Transaction costs paid to third parties in a modification are amortized over the remaining term of the modified debt.

The Company's accounts payable and accrued liabilities and financial guarantee liability are measured at amortized cost. The Company's derivative warrant liabilities were designated as FVTPL upon initial recognition.

PROVISIONS

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. The amount of a provision is the best estimate of the consideration at the end

of the reporting period. Provisions measured using estimated cash flows required to settle the obligation are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The Company has no onerous contracts during the years ended and as at December 31, 2022 and 2021.

NON-MONETARY TRANSACTIONS

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance, or the fair value cannot be reliably established. The lack of commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be reliably measured, it is recorded at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up, adjusted by the fair value of any monetary consideration received or given. When the asset received or the consideration given consists of shares in an actively traded market, the value of those shares will be considered fair value.

COMPOUND FINANCIAL INSTRUMENTS

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability which does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument taken as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest and losses and gains relating to the financial liability are recognized in profit and loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognized on conversion.

REVENUE

Under International Financial Reporting Standard 15 – Revenue from Contracts with Customers (“IFRS 15”), to determine the amount and timing of revenue to be recognized, the Company follows a five-step model:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligations are satisfied

CANNABIS REVENUE

Gross revenue from the direct sale of cannabis for a fixed price is recognized when the Company transfers control of the goods to the customer. The transfer of control is specific to each contract and can range from the point of delivery to a specified length of time for the customer to accept the goods.

For contracts that permit the customer to return goods, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Therefore, the amount of revenue recognized is adjusted for expected returns, which are estimated based on historical data and management’s expectation of future returns. In these circumstances, a refund liability and a right to recover returned goods asset are recognized. The right to recover returned goods asset is measured at the former carrying amount of the inventory

less any expected costs to recover goods. The refund liability is included in accounts payable and accrued liabilities and the right to recover returned goods is included in inventory. The Company reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

Gross revenue earned in Canada includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Net revenue is gross revenue less excise taxes. Gross revenue is recognized to the extent that it is highly probable that a significant reversal will not occur. Therefore, gross revenue is stated net of expected price discounts, allowances for customer returns and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing.

RETAIL REVENUE

Retail revenue consists of sales through corporate stores and e-commerce operations. Revenue at corporate stores is recognized at the point of sale when the customer takes control of the goods or service and is measured at the amount of consideration to which the Company expects to be entitled to, net of estimated returns, and sales incentives. The Company considers its performance obligations to be satisfied at the point of sale. The Company's goods and services are generally capable of being distinct and are accounted for as a separate performance obligation. Sales through e-commerce operations are recognized when the customer takes control of the goods or services upon delivery and is measured at the amount of consideration to which the Company expects to be entitled, net of estimated returns, and sales incentives.

It is the Company's policy to sell merchandise with a limited right to return. Returns are only provided through exchanges or the issuance of a gift card.

The Company sells gift cards. The sale of a gift card creates a future performance obligation. When (or as) the performance obligation is satisfied, the Company recognizes revenue as the amount of the transaction price.

FRANCHISE REVENUE

Franchise fees are recognized at a point in time when the Company satisfies its performance obligations which is determined to be when the franchise begins operations. Performance obligations include site selection, lease assistance and training. Initial franchise fees are allocated to the performance obligations based on the estimated standalone selling prices. Funds received in advance of a franchise starting operations are recorded as franchise fee deposits.

Ongoing royalty and advertisement fees, which are determined on a formula basis in accordance with the terms of the relevant franchise agreement, based on monthly revenues of the franchisees, are recognized as revenue when the contractual performance obligations have been achieved or other service-related performance obligations have been completed. The performance obligations relate to providing support to the franchise partners and stewarding the Spiritleaf brand. While the franchisees are operating under the name Spiritleaf, they utilize the Spiritleaf trademark, thereby, the Company has performed its obligations to recognize the revenue, as per the franchise agreements.

OTHER REVENUE

Proprietary licensing revenue is generated from proprietary licensing services provided to customers. Revenue is recognized when the services are delivered to the customer at a point in time as outlined by the contract. The Company does not operate or manage these services separately from its primary retail sales or operations.

Millwork revenue is defined as the proceeds and receivables related to the sale of millwork, which includes store fixtures. Millwork revenue is recognized at a point in time when a contractual exchange agreement has been entered into, and the performance obligation is considered to have been met when the millwork has been delivered to the franchise partner.

Supply revenue represents revenues earned from the sales of custom Spiritleaf accessories to franchise locations. The Spiritleaf accessory revenue is earned when the goods are shipped.

RESEARCH AND DEVELOPMENT

Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets the generally accepted criteria for deferral and amortization per IAS 38. Research and development costs comprise consulting fees, costs to cultivate and test cultivar batches to the point of commercialization and licence acquisition fees. No development costs have been capitalized as at December 31, 2022, or December 31, 2021.

SHARE-BASED COMPENSATION

The Company's share-based compensation plans include equity-settled awards and cash-settled awards.

The fair value of share-based compensation expenses is estimated using the Black-Scholes pricing model and relies on a number of estimates, such as the expected life of the award, the volatility of the underlying share price, the risk-free rate of return and the estimated rate of forfeiture of awards granted.

EQUITY-SETTLED

Simple and performance warrants, stock options and restricted share units ("RSUs") are granted from time to time to employees, directors, and others at the discretion of the Board. The grant date fair value of simple warrants, performance warrants, stock options and RSUs is recognized as share-based compensation expense, with a corresponding increase in contributed surplus, over the vesting period of the awards. On exercise of simple warrants, performance warrants and stock options, the cash consideration received is credited to share capital and the associated amount in contributed surplus is reclassified to share capital. On exercise of RSUs, the associated amount in contributed surplus is reclassified to share capital.

CASH-SETTLED

DSUs are granted to directors and represent a right for the holder to receive a cash payment equal to the fair value of the Company's common shares calculated at the date of such payment.

Nova DSUs are granted to Nova directors and represent a right for the holder to receive a cash payment equal to the fair value of Nova's common shares calculated at the date of such payment, or Nova common shares, at the discretion of Nova.

DSUs are accounted for as a liability instrument and measured at fair value based on the market value of the Company's common shares at each period end. The fair value is recognized as share-based compensation over the vesting period. Fluctuations in the fair value are recognized within share-based compensation in the period in which they occur.

INCOME TAXES

Income taxes are recognized in profit and loss, except to the extent that they relate to items recognized directly in equity, in which case the tax is recognized in equity.

Current taxes are generally the expected income tax payable on taxable income for the reporting period, calculated using rates enacted or substantively enacted at the consolidated statements of financial position dates, and include any adjustment to income tax payable or recoverable in respect of previous periods.

Uncertain income tax positions are accounted for using the standards applicable to current income tax assets and liabilities. Liabilities and assets are recorded to the extent they are deemed to be probable.

Deferred tax is recognized using the asset and liability method, based on temporary differences between financial statement carrying amounts of assets and liabilities and their respective income tax bases. Deferred tax is determined using tax rates that have been enacted or substantively enacted at the consolidated statements of financial position date and are expected to apply when the related deferred tax asset is realized, or the deferred tax liability is settled. Deferred tax is not accounted for where it arises from initial recognition of an asset or liability in a transaction other than a business combination which, at the time of the transaction, affects neither accounting nor taxable income

(loss). The amount of deferred tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities. Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available for which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and adjusted to the extent that it is no longer probable that the related tax benefit will be realized.

Tax assets and liabilities are offset when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be affected.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method of accounting when the acquired assets meet the definition of a business. The acquired identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of consideration transferred to the sellers, including cash paid and the fair value of assets given, equity instruments issued, and liabilities of the seller assumed at the acquisition date. Any excess of the fair value of the consideration paid over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in net earnings. Transaction costs associated with business combinations are expensed as incurred.

FAIR VALUE OF ASSETS ACQUIRED AND LIABILITIES ASSUMED IN A BUSINESS COMBINATION

The fair value of assets acquired and liabilities assumed in a business combination, including contingent consideration and goodwill, is estimated based on information available at the date of acquisition. Various valuation techniques are applied for measuring fair value including market comparables and discounted cash flows which rely on assumptions such as future selling prices, expected sales volumes, discount rates and future development and operating costs. Changes in these variables could significantly impact the carrying value of the net assets. Specific judgement is required in the identification of intangible assets.

GOODWILL

Goodwill is assessed for impairment annually or when facts and circumstances indicate that it is impaired. Goodwill is tested for impairment at a CGU level by comparing the carrying amount to the recoverable amount, which is determined as the greater of fair value less costs of disposal and value in use. Any excess of the carrying amount over the recoverable amount is the impaired amount. The recoverable amount estimates are categorized as Level 3 according to the fair value hierarchy. Impairment charges are recognized in profit and loss. Goodwill is reported at cost less any accumulated impairment. Goodwill impairments are not reversed.

NON-CONTROLLING INTERESTS

The Company recognizes non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets, determined on an acquisition-by-acquisition basis.

LOSS OF CONTROL

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

LEASES

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

AS A LESSEE

The Company recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost and any direct costs of obtaining the lease, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. Depreciation is recognized on the lease asset over the shorter of the estimated useful life of the asset or the lease term. The lease liability is initially measured at the present value of the lease payments that have not been paid at the commencement date, discounted at the rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease payments are allocated between the liability and accretion expense. Accretion expense is recognized on the lease liability using the effective interest rate method and payments are applied against the lease liability.

The carrying amounts of the right of use assets, lease liability, and the resulting interest and depreciation expense are based on the implicit interest rate within the lease arrangement or, if this information is unavailable, the incremental borrowing rate. Incremental borrowing rates are based on judgements including economic environment, term, and the underlying risk inherent to the asset.

AS A LESSOR

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. Under a finance lease, the Company recognizes a receivable at an amount equal to the net investment in the lease which is the present value of the aggregate of lease payments receivable by the lessor. Under an operating lease, the Company recognizes lease payments received as income on a straight-line basis over the lease term. When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset.

GOVERNMENT GRANTS

Government grants are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. If a grant is received but reasonable assurance and compliance with conditions is not achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the grant relates to an expense item in nature, it is recognized as "government subsidies" in profit or loss on a systematic basis in the period in which the costs are incurred.

CAPTIVE INSURANCE

The Company has secured insurance coverage for its directors and officers through two separate captive insurance structures.

The first structure is a captive cell program entered into with a registered insurer for the purpose of holding and managing the Company's coverage funds through a separate cell account ("Cell Captive"). The Company applies International Financial Reporting Standard 10 – Consolidated Financial Statements ("IFRS 10") in its assessment of

control as it relates to the Cell Captive. The Company's accounting policy is to consolidate the Cell Captive. The Cell Captive funds are held as cash and may be invested according to the Company's treasury policy. The funds are disclosed as restricted cash as the Cell Captive must be fully funded at all times. The Company will recognize any gains or losses from fair market value adjustments, interest and/or foreign exchange in the statements of income (loss) and comprehensive income (loss).

The second structure is a wholly owned subsidiary, Sundial Insurance (Bermuda) Ltd. ("SIBL"), incorporated to provide separate and additional coverage. The Company applies IFRS 10 in its assessment of control as it relates to SIBL. The Company's accounting policy is to consolidate SIBL. The funds are disclosed as restricted cash as the funds were required for initial capitalization of the entity and there is a requirement to maintain minimum capital and surplus in accordance with industry regulations.

NEW ACCOUNTING STANDARDS

The following accounting standards were effective for annual periods beginning on or after January 1, 2022 and did not have a material impact on the Company's consolidated financial statements:

- Onerous Contracts — Cost of Fulfilling a Contract — Amendments to IAS 37
- Property, Plant and Equipment: Proceeds before Intended Use — Amendments to IAS 16

There are new accounting standards, amendments to accounting standards and interpretations that are effective for annual periods beginning on or after January 1, 2023, that have not been applied in preparing the consolidated financial statements for the year ended December 31, 2022. These standards and interpretations are not expected to have a material impact on the Company's consolidated financial statements and include:

- Classification of Liabilities as Current or Non-current — Amendment to IAS 1
- IFRS 17 Insurance Contracts
- Definition of Accounting Estimate — Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction — Amendments to IAS 12

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Judgement is used mainly in determining whether a balance or transaction should be recognized in the consolidated financial statements. Estimates and assumptions are mostly used in determining the measurement of recognized transactions and balances. However, judgements and estimates are often interrelated.

Judgements, estimates and assumptions are continually evaluated and are based on factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Judgements, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment include the following:

IMPAIRMENTS

CGU's are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into CGU's requires significant judgement and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructure and the way in which management monitors the Company's operations.

The recoverable amounts of CGU's and individual assets have been determined as the higher of the CGU's or the asset's fair value less costs of disposal and its value in use. These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on the likelihood of obtaining future licences from Health Canada, total addressable market, market share escalation factor, gross margin escalation factor, terminal multiple and discount rates. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGU's.

BIOLOGICAL ASSETS AND INVENTORY

Biological assets, comprising cannabis plants and agricultural product consisting of cannabis, are measured at fair value less costs to produce and sell up to the point of harvest.

Determination of the fair values of the biological assets and the agricultural product requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle.

The valuation of biological assets at the point of harvest is used as the measurement basis for all cannabis-based inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable to inventory. The valuation of work-in-progress and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount of the inventory. The Company must also determine if the carrying value of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

REVENUE

Government customers typically have a right of product return, and in some cases, the right to pricing adjustments for products that are subsequently discounted or sold for a lower price in another jurisdiction. Licensed Producers can, in some cases, have a right of product return or warranty period. The estimate of potential future returns includes the use of estimates and assumptions and are subject to change as new information becomes available.

CONVERTIBLE INSTRUMENTS

The derivative warrant liabilities are financial liabilities measured at FVTPL. The determination of the fair value of the liabilities are estimated based on various assumptions, including future share price, volatility, discount rate and various probability factors.

ACQUISITIONS

The Company assesses whether an acquisition should be accounted for as an asset acquisition or a business combination under International Financial Reporting Standard 3 – Business Combinations ("IFRS 3"). This assessment requires management to make judgements on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business inputs and processes.

INVESTMENTS

The Company's investments at FVTPL are financial assets measured at fair value each reporting period. The determination of the fair value of each investment requires judgement from management and the primary assumption is the discount rate.

EQUITY-ACCOUNTED INVESTEEES

The Company's interest in a joint venture is accounted for using the equity-method. The current investment portfolio of the joint venture is comprised of secured debt and hybrid instruments which include options and warrants. These investments are recorded at fair value each reporting period with any changes in fair value recorded through profit or loss.

The determination of the fair value of the underlying investments is based on a discounted cash flow methodology and requires judgement from management. The discounted cash flows are based on various assumptions, including an estimation of market prices, volatility and discount rates.

5. BUSINESS ACQUISITIONS**A) ALCANNA**

On October 7, 2021, the Company announced that it had entered into an arrangement agreement with Alcanna Inc. ("Alcanna") pursuant to which the Company would acquire all of the issued and outstanding common shares of Alcanna by way of a statutory plan of arrangement (the "Alcanna Transaction"). The Company and Alcanna amended the arrangement agreement in respect of the Alcanna Transaction on January 6, 2022, and the Alcanna Transaction closed on March 31, 2022. Alcanna is a Canadian liquor retailer, operating predominantly in Alberta under its three retail brands, "Wine and Beyond", "Liquor Depot" and "Ace Liquor". Alcanna holds an approximate 63% equity interest in Nova, a Canadian cannabis retailer operating stores across Alberta, Saskatchewan and Ontario, under its "Value Buds" and "Sweet Tree" retail brands. The Company is deemed to control Nova through its equity interest and Nova's results are included in the consolidated financial statements of the Company with the minority interest shown as non-controlling interest through equity.

Alcanna was acquired to diversify and stabilize cash flows and advance the Company's vertical integration strategy.

The Alcanna Transaction consideration was comprised of (i) an aggregate \$54.3 million cash (\$1.50 in cash for each Alcanna common share), and (ii) an aggregate 32.1 million SNDL common shares valued at \$287.1 million based on the fair value of each common share of the Company on the closing date (0.885 of a SNDL common share for each Alcanna common share).

The Company engaged independent valuation experts to assist in determining the fair value of certain assets acquired and liabilities assumed and related deferred income tax impacts, if any.

The fair value of consideration paid was as follows:

	Provisional	Adjustments	Final
Cash	54,339	—	54,339
Issuance of common shares	287,129	—	287,129
	341,468	—	341,468

SNDL Inc.**Notes to the Consolidated Financial Statements**

For the year ended December 31, 2022

(Expressed in thousands of Canadian dollars, except where otherwise noted)

The fair value of the assets and liabilities acquired was as follows:

	Provisional	Adjustments	Final
Cash	23,190	—	23,190
Accounts receivable	1,868	—	1,868
Prepaid expenses and deposits	10,986	—	10,986
Inventory	105,022	—	105,022
Right of use assets	171,866	(31,117)	140,749
Property, plant and equipment	86,059	24,632	110,691
Intangible assets	—	45,100	45,100
Goodwill	280,243	(129,308)	150,935
Accounts payable and accrued liabilities	(36,703)	(44)	(36,747)
Long-term debt	(10,000)	—	(10,000)
Lease liabilities	(232,755)	90,736	(142,019)
Derivative warrants	(58)	(27)	(85)
Non-controlling interest	(58,250)	28	(58,222)
	341,468	—	341,468

Non-controlling interest has been measured as the fair value of the non-controlling interest in Nova, which at the time was 37%, and was measured by applying a market approach with reference to Nova's closing share price on the day of the Alcanna Transaction of \$2.66.

On March 31, 2022, the Company repaid in full the acquired long-term debt balance of \$10.0 million.

These consolidated financial statements incorporate the operations of Alcanna commencing March 31, 2022. During the period March 31, 2022 to December 31, 2022, the Company recorded revenues of \$639.5 million and net loss of \$101.0 million from the Alcanna operations. Had the Alcanna Transaction closed on January 1, 2022, management estimates that for the period January 1, 2022, to March 30, 2022, revenue would have increased by \$162.5 million and net loss would have increased by \$25.5 million. In determining these amounts, management assumes the fair values on the date of acquisition would have been the same as if the acquisition had occurred on January 1, 2022.

The Company incurred costs related to the Alcanna Transaction of \$7.0 million which have been included in transaction costs.

The Company recorded adjustments to the fair value in the fourth quarter of 2022 to reflect additional information and greater certainty with respect to management estimates pertaining to facts and circumstances that were either unknown or uncertain at the date of acquisition. These adjustments related to changes in preliminary valuation assumptions, including refinement of right of use assets, property, plant and equipment, intangible assets, accounts payable and accrued liabilities, lease liabilities, derivative warrants and non-controlling interest. All measurement period adjustments were offset to goodwill.

GOODWILL IMPAIRMENT

For the purpose of impairment testing at December 31, 2022, intangible assets with indefinite lives were allocated to the Company's CGUs as follows: i) \$2.7 million to the cannabis retail CGU, ii) \$18.3 million to the cannabis franchise CGU and iii) \$43.1 million to the liquor retail CGU. Goodwill from the Alcanna acquisition was allocated as follows: i) \$126.6 million to the cannabis retail CGU and ii) \$24.3 million to the liquor retail CGU. The remaining goodwill from the Inner Spirit acquisition of \$4.6 million was allocated to the group CGU containing the cannabis retail and cannabis franchise CGUs. The impairment test for the Company's cannabis retail CGU used its fair value less costs of disposal and the fair value measurement was categorized as a Level 1 fair value based on the inputs in the valuation technique used. The impairment test for the Company's cannabis franchise and liquor retail CGUs used a value in use approach based on internal cash flow estimates at December 31, 2022, and a discount rate of 12.0%. The discount rate was estimated based on the Company's weighted average cost of capital, adjusted for risks specific to the CGUs. The estimated cash flows were based on a 5-year model taking into account the overall forecasted Canadian cannabis and

liquor industry market sizes and the Company's forecasted market share. A terminal value thereafter was applied. Based on the analysis, there was an impairment of the Company's retail cannabis CGU of \$88.0 million as at December 31, 2022 as the estimated recoverable amount for this CGU of \$84.8 million was lower than the respective carrying amount. The impairment loss was fully allocated to goodwill and included in asset impairment. The impairment was recognized in the Company's cannabis retail reportable segment.

B) INNER SPIRIT

On May 5, 2021, the Company and Inner Spirit Holdings Ltd. ("Inner Spirit") announced that they had entered into an arrangement agreement pursuant to which the Company acquired all of the issued and outstanding common shares of Inner Spirit (the "Inner Spirit Transaction"). The Inner Spirit Transaction closed on July 20, 2021. Inner Spirit is a retailer and franchisor of Spiritleaf adult-use cannabis stores across Canada, with a network that included more than 100 franchised and corporate-owned locations at the acquisition date.

The Inner Spirit Transaction consideration was comprised of (i) an aggregate \$92.6 million cash (\$0.30 in cash for each Inner Spirit common share), (ii) an aggregate 2.4 million SNDL common shares valued at \$26.2 million based on the fair value of each common share of the Company on the closing date (0.00835 of a SNDL common share for each Inner Spirit common share) and (iii) contingent consideration valued at \$1.2 million representing the fair value of Inner Spirit warrants.

The Company engaged independent valuation experts to assist in determining the fair value of certain assets acquired and liabilities assumed and related deferred income tax impacts.

The fair value of consideration paid was as follows:

	Provisional	Adjustments	Final
Cash	92,583	—	92,583
Issuance of common shares	26,216	—	26,216
Contingent consideration	1,150	—	1,150
	119,949	—	119,949

The fair value of the assets and liabilities acquired was as follows:

	Provisional	Adjustments	Final
Cash	9,808	—	9,808
Accounts receivable	750	(327)	423
Prepaid expenses and deposits	853	—	853
Inventory	2,733	2,011	4,744
Right of use assets	—	5,730	5,730
Property, plant and equipment	12,108	(5,730)	6,378
Intangible assets	—	46,000	46,000
Net investment in subleases	23,751	50	23,801
Goodwill	114,537	(42,041)	72,496
Accounts payable and accrued liabilities	(2,678)	—	(2,678)
Convertible debentures	(12,025)	—	(12,025)
Lease liabilities	(29,481)	(50)	(29,531)
Financial guarantee liability	(407)	—	(407)
Deferred tax liability	—	(5,643)	(5,643)
	119,949	—	119,949

On August 4, 2021, the Company settled the convertible debenture liability through the issuance of 2.5 million common shares valued at \$2.7 million and a cash payment of \$9.3 million. Due to the change of control from the Inner Spirit Transaction, debenture holders were entitled to receive SNDL common shares and a cash payment based on a prescribed formula.

The fair value of the Inner Spirit warrants has been estimated as \$1.2 million and is made up of the following components: (i) equity component of \$1.8 million (note 23(c)), (ii) liability component of \$0.3 million and (iii) asset component of \$0.9 million.

The consolidated financial statements incorporate the operations of Inner Spirit commencing July 20, 2021. During the period July 20, 2021, to December 31, 2021, the Company recorded revenues of \$16.1 million and net earnings of \$1.1 million. Had the acquisition closed on January 1, 2021, management estimates that for the period January 1, 2021, to July 19, 2021, revenue would have increased by \$20.4 million and net earnings would have been reduced by \$7.4 million. In determining these amounts, management assumes the fair values on the date of acquisition would have been the same as if the acquisition had occurred on January 1, 2021.

The Company incurred acquisition-related costs of \$1.9 million which have been included in transaction costs.

The Company recorded adjustments to the fair value in the third quarter of 2022 to reflect additional information and greater certainty with respect to management estimates pertaining to facts and circumstances that were either unknown or uncertain at the date of acquisition. These adjustments related to changes in preliminary valuation assumptions, including refinement of accounts receivable, inventory, net investment in subleases, lease liabilities and amounts allocated to intangible assets and deferred tax liability. All measurement period adjustments were offset to goodwill.

The Company made retrospective adjustments to provisional amounts in the comparative period as follows:

- The carrying amount of intangible assets as at December 31, 2021 was increased by \$45.4 million, representing the increase in fair value of \$46.0 million less additional amortization from the acquisition date to December 31, 2021 of \$0.6 million.
- The deferred tax liability of \$5.6 million was adjusted to nil with a corresponding adjustment recorded to income tax recovery, on the basis that the Company and Inner Spirit are subject to income tax under the same taxation authority.
- Amortization expense for 2021 was increased by \$0.6 million (Q3 2021 — \$0.3 million and Q4 2021 — \$0.3 million).
- Cost of sales for 2021 was increased by \$2.0 million, representing the increase in fair value of acquired inventory that was sold during 2021.
- General and administrative expenses was decreased by \$0.3 million, representing the decrease in fair value of acquired accounts receivable.
- Goodwill was decreased by \$42.0 million.

INNER SPIRIT GOODWILL AND INTANGIBLE ASSET IMPAIRMENT

For the purpose of impairment testing at September 30, 2022, intangible assets with indefinite lives consisting of the Inner Spirit brands and trademarks were allocated to the Company's CGUs as follows: i) \$17.7 million to the cannabis retail CGU and ii) \$18.3 million to the cannabis franchise CGU. The impairment test for the Company's cannabis retail and cannabis franchise CGUs used a value in use approach based on internal cash flow estimates at September 30, 2022, and a discount rate of 19.5%. The discount rate was estimated based on the Company's weighted average cost of capital, adjusted for risks specific to the CGUs. The estimated cash flows were based on a 5-year model taking into account the overall forecasted Canadian cannabis industry market size and the Company's forecasted market share. A terminal value thereafter was applied. Based on the analysis, there was an impairment of the Company's retail cannabis CGU of \$16.4 million as at September 30, 2022 as the estimated recoverable amount for this CGU of \$1.9 million was lower than the respective carrying amount. The impairment loss was fully allocated to intangible assets with indefinite lives and included in asset impairment. The impairment was recognized in the Company's cannabis retail reportable segment.

For the purpose of impairment testing at September 30, 2022, goodwill of \$72.5 million from the Inner Spirit acquisition was allocated to the group CGU containing the cannabis retail and cannabis franchise CGUs. The impairment test for the Company's group CGU used a value in use approach based on internal cash flow estimates at September 30, 2022, and a discount rate of 19.5%. The discount rate was estimated based on the Company's weighted average cost of capital, adjusted for risks specific to the CGUs. The estimated cash flows were based on a 5-year model

taking into account the overall forecasted Canadian cannabis industry market size and the Company's forecasted market share. A terminal value thereafter was applied. Based on the analysis, there was an impairment of the Company's group CGU of \$67.9 million as at September 30, 2022 as the estimated recoverable amount for this group CGU of \$40.0 million was lower than the respective carrying amount. The impairment loss was fully allocated to goodwill and included in asset impairment. The estimated value in use for the Company's group CGU was sensitive to an increase in the discount rate. An increase to the discount rate by 1% would increase the impairment by approximately \$1.1 million. The impairment was recognized in the Company's cannabis retail reportable segment.

C) ZENABIS

On November 1, 2022, the Company announced that, in the context of proceedings pursuant to the Zenabis Group's (as defined below) filing under the Companies' Creditors Arrangement Act ("CCAA"), it had successfully acquired all of the assets of the business of the Zenabis Group, subject to certain exclusions, (the "Zenabis Business"), pursuant to an approval order of the Québec Superior Court (the "Court").

The order of the Court approved the acquisition by a wholly owned subsidiary of SNDL of all issued and outstanding shares of Zenabis Ltd., a corporation resulting from the amalgamation of select Zenabis entities (collectively, the "Zenabis Group"), as part of the consideration for the senior secured debt of the Zenabis Group due to the SNDL subsidiary. Zenabis Ltd. owns all of the Zenabis Business, free and clear of any encumbrances except certain permitted encumbrances (namely the security of the wholly owned subsidiary of SNDL, which was preserved).

The Zenabis acquisition consideration was comprised of (i) the extinguishment of the Company's senior loan.

The Company engaged independent valuation experts to assist in determining the fair value of certain assets acquired and liabilities assumed and related deferred income tax impacts, if any.

The fair value of consideration paid was as follows:

	Final
Extinguishment of senior loan	18,215
	18,215

The fair value of the assets and liabilities acquired was as follows:

	Final
Cash	2,509
Accounts receivable	888
Biological assets	909
Prepaid expenses and deposits	1,856
Inventory	4,512
Assets held for sale	6,375
Right of use assets	32
Property, plant and equipment	4,658
Accounts payable and accrued liabilities	(3,437)
Lease liabilities	(87)
	18,215

Assets held for sale are comprised of a processing facility in Stellarton, Nova Scotia, whose primary purpose was the packaging and processing of value added and derivative products for the adult-use cannabis market.

These consolidated financial statements incorporate the operations of Zenabis commencing November 1, 2022. During the period November 1, 2022 to December 31, 2022, the Company recorded revenues of \$0.4 million and net loss of \$1.8 million from the Zenabis operations. Had the acquisition closed on January 1, 2022, management estimates that for the period January 1, 2022, to October 31, 2022, revenue would have increased by \$2.0 million and net loss would have increased by \$9.0 million. In determining these amounts, management assumes the fair values on the date of acquisition would have been the same as if the acquisition had occurred on January 1, 2022.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

(Expressed in thousands of Canadian dollars, except where otherwise noted)

The Company incurred costs related to the Zenabis acquisition of \$0.8 million which have been included in transaction costs.

6. SEGMENT INFORMATION

The Company's reportable segments are organized by business line, and with the acquisition of Alcanna, are comprised of four reportable segments: liquor retail, cannabis retail, cannabis operations, and investments.

Liquor retail includes the sale of wines, beers and spirits through owned liquor stores. Cannabis retail includes the private sale of adult-use cannabis through owned and franchise retail cannabis stores. Cannabis operations include the cultivation, distribution and sale of cannabis for the adult-use and medical markets domestically and for export. Investments include the deployment of capital to investment opportunities. Certain overhead expenses not directly attributable to any operating segment are reported as "Corporate".

	Liquor Retail ⁽¹⁾	Cannabis Retail ⁽¹⁾	Cannabis Operations ⁽²⁾	Investments ⁽³⁾	Corporate	Total
As at December 31, 2022						
Total assets	351,338	200,393	163,130	825,151	19,338	1,559,350
Year ended December 31, 2022						
Net revenue	462,180	205,610	44,407	—	—	712,197
Gross margin	106,307	47,334	(13,266)	—	—	140,375
Interest and fee revenue	—	—	—	16,739	—	16,739
Investment (loss) income	—	—	—	(65,164)	—	(65,164)
Share of loss of equity-accounted investees	—	—	—	(43,002)	—	(43,002)
Depreciation and amortization	17,025	9,920	199	—	13,801	40,945
Income (loss) before income tax	17,726	(183,055)	(29,618)	(127,362)	(57,461)	(379,770)

(1) Liquor retail includes operations for the period March 31, 2022 to December 31, 2022 and cannabis retail includes the operations of Nova retail stores for the period March 31, 2022 to December 31, 2022 (note 5(a)).

(2) Cannabis operations includes the operations of Zenabis for the period November 1, 2022 to December 31, 2022 (note 5(c)).

(3) Total assets include cash and cash equivalents.

	Liquor Retail	Cannabis Retail ⁽¹⁾	Cannabis Operations	Investments ⁽²⁾	Corporate	Total
As at December 31, 2021						
Total assets ⁽³⁾	—	157,022	147,887	1,093,596	29,155	1,427,660
Year ended December 31, 2021						
Net revenue	—	16,091	40,037	—	—	56,128
Gross margin ⁽³⁾	—	6,498	(15,499)	—	—	(9,001)
Interest and fee revenue	—	—	—	13,149	—	13,149
Investment loss	—	—	—	(44,501)	—	(44,501)
Share of profit of equity-accounted investees	—	—	—	32,913	—	32,913
Depreciation and amortization ⁽³⁾	—	1,282	3,108	—	897	5,287
Income (loss) before income tax ⁽³⁾	—	(410)	(117,990)	(5,837)	(110,461)	(234,698)

(1) Cannabis retail includes the operations of Inner Spirit retail and franchise stores for the period July 20, 2021 to December 31, 2021.

(2) Total assets include cash and cash equivalents.

(3) Adjustments to provisional amounts — refer to note 5(b)

GEOGRAPHICAL DISCLOSURE

As at December 31, 2022, the Company had non-current assets related to investment credit operations in the United States of \$519.3 million (December 31, 2021 — \$412.9 million). For the year ended December 31, 2022, share of profit of equity-accounted investees related to investment credit operations in the United States was a loss of \$43.0 million (year ended December 31, 2021 — gain of \$32.9 million).

7. RESTRICTED CASH

As at	December 31, 2022	December 31, 2021
Securities collateral	—	7,773
Captive insurance	19,044	19,240
Other	294	—
	19,338	27,013

Securities collateral is comprised of a cash balance to satisfy margin requirements on the Company's option trading positions.

The Company has secured insurance coverage for its directors and officers through two separate captive insurance structures (note 3).

8. MARKETABLE SECURITIES

As at	December 31, 2022	December 31, 2021
Balance, beginning of year	83,724	—
Additions	3,755	158,101
Dispositions	—	(9,663)
Change in fair value recognized in profit or loss	(65,553)	(64,714)
Balance, end of year	21,926	83,724

During the year ended December 31, 2022, proceeds of nil (year ended December 31, 2021 — \$29.9 million) were received for dispositions of marketable securities and a gain on disposition of nil (year ended December 31, 2021 — \$20.2 million) was recognized (note 26).

Marketable securities have been designated as FVTPL (note 31).

Subsequent to December 31, 2022, the marketable securities held in Valens were converted to SNDL common shares and subsequently cancelled in relation to the Valens acquisition (note 36).

The components of marketable securities are as follows:

As at	December 31, 2022	December 31, 2021
Equity securities	21,926	83,802
Put and call options	—	(78)
	21,926	83,724

9. ACCOUNTS RECEIVABLE

As at	December 31, 2022	December 31, 2021
Trade receivables	17,558	10,865
Other receivables	5,078	—
	22,636	10,865

The Company has calculated ECLs based on lifetime expected credit losses, taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. Refer to note 31 for credit risk disclosures.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

(Expressed in thousands of Canadian dollars, except where otherwise noted)

10. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants in various stages of vegetation, including plants which have not been harvested. The change in carrying value of biological assets is as follows:

As at	December 31, 2022	December 31, 2021
Balance, beginning of year	4,410	3,531
Increase in biological assets due to capitalized costs	27,749	25,880
Acquisition	909	—
Net change in fair value of biological assets	(1,309)	4,708
Transferred to inventory upon harvest	(28,282)	(29,709)
Balance, end of year	3,477	4,410

Biological assets are valued in accordance with IAS 41 and are presented at their fair value less costs to sell up to the point of harvest. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price less costs to produce and sell per gram.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

Management believes the most significant unobservable inputs and their impact on fair value of biological assets are as follows:

Assumption	Input	Weighted average input		Effect of 10% change (\$000s)	
		December 31 2022	December 31 2021	December 31 2022	December 31 2021
Yield per square foot of growing space ⁽¹⁾	Grams	48	49	279	435
Average net selling price ⁽²⁾	\$/gram	4.66	4.49	687	1,014
After harvest cost to complete and sell	\$/gram	1.27	1.06	187	249

(1) Varies by strain; obtained through historical growing results or grower estimate if historical results are not available.

(2) Varies by strain and sales market; obtained through average selling prices or estimated future selling prices if historical results are not available.

These assumptions are estimates that are subject to volatility in market prices and several uncontrollable factors. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the net change in fair value of biological assets in future periods.

The Company estimates the harvest yields for cannabis at various stages of growth. As at December 31, 2022, it is estimated that the Company's biological assets will yield approximately 3,904 kilograms (December 31, 2021 – 5,672 kilograms) of dry cannabis when harvested. During the year ended December 31, 2022, the Company harvested 19,854 kilograms of dry cannabis (year ended December 31, 2021 – 22,784 kilograms).

Notes to the Consolidated Financial Statements

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(Expressed in thousands of Canadian dollars, except where otherwise noted)

11. INVENTORY

As at	December 31, 2022	December 31, 2021
Retail liquor	82,589	—
Harvested cannabis		
Raw materials, packaging and components	4,577	4,354
Work-in-progress	19,927	19,751
Finished goods	7,040	2,966
Retail cannabis	13,373	2,397
Millwork	276	35
	127,782	29,503

During the year ended December 31, 2022, inventories of \$558.1 million were recognized in cost of sales as an expense (year ended December 31, 2021 - \$50.6 million).

During the year ended December 31, 2022, the Company recognized inventory write downs of \$8.9 million (year ended December 31, 2021 - \$17.5 million), of which \$7.0 million (year ended December 31, 2021 - \$17.0 million) was recognized as an impaired and obsolete inventory provision, and \$1.9 million (year ended December 31, 2021 - \$0.5 million) was included in the change in fair value realized through inventory as the fair value component of the impaired and obsolete inventory provision.

12. RIGHT OF USE ASSETS

Cost	
Balance at December 31, 2020	1,894
Acquisition (note 5(b))	5,730
Additions	579
Dispositions	(165)
Balance at December 31, 2021	8,038
Acquisition (note 5(a), note 5(c))	140,781
Additions	6,103
Tenant inducement allowances	(46)
Dispositions and remeasurements	12,191
Balance at December 31, 2022	167,067
Accumulated depreciation and impairment	
Balance at December 31, 2020	571
Depreciation	897
Dispositions	(147)
Balance at December 31, 2021	1,321
Depreciation	25,227
Impairment	6,365
Balance at December 31, 2022	32,913
Net book value	
Balance at December 31, 2021	6,717
Balance at December 31, 2022	134,154

As at December 31, 2022, the Company recorded impairment losses of right of use assets of \$6.4 million with \$3.9 million in the cannabis retail reporting segment and \$2.5 million in the liquor retail reporting segment. Refer to note 13 for the significant assumptions applied in the impairment test.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2022

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13. PROPERTY, PLANT AND EQUIPMENT

	Land	Production facilities	Leasehold improvements	Equipment	Construction in progress ("CIP")	Total
Cost						
Balance at December 31, 2020	8,640	152,935	2	28,894	8,819	199,290
Acquisition (note 5(b))	—	—	4,169	2,209	—	6,378
Additions	—	467	126	1,975	1,209	3,777
Transfers from CIP	3,748	—	—	—	(3,748)	—
Dispositions	—	(70)	(398)	(301)	(177)	(946)
Balance at December 31, 2021	12,388	153,332	3,899	32,777	6,103	208,499
Acquisition (note 5(a), note 5(c))	130	2,982	65,605	44,263	2,369	115,349
Additions	57	256	3,465	5,907	982	10,667
Dispositions	(611)	(3,844)	(647)	(4,025)	—	(9,127)
Balance at December 31, 2022	11,964	152,726	72,322	78,922	9,454	325,388
Accumulated depreciation and impairment						
Balance at December 31, 2020	—	69,364	—	8,500	5,821	83,685
Depreciation	—	2,503	411	5,438	—	8,352
Impairment	—	60,000	—	—	—	60,000
Dispositions	—	—	—	(10)	—	(10)
Balance at December 31, 2021	—	131,867	411	13,928	5,821	152,027
Depreciation	—	1,288	7,212	11,373	—	19,873
Impairment	—	—	7,794	7,415	—	15,209
Dispositions	—	(1,324)	(610)	(3,196)	—	(5,130)
Balance at December 31, 2022	—	131,831	14,807	29,520	5,821	181,979
Net book value						
Balance at December 31, 2021	12,388	21,465	3,488	18,849	282	56,472
Balance at December 31, 2022	11,964	20,895	57,515	49,402	3,633	143,409

During the year ended December 31, 2022, depreciation expense of \$6.4 million was capitalized to biological assets and inventory (year ended December 31, 2021 – \$4.9 million).

During the year ended December 31, 2022, proceeds of \$3.5 million were received for the disposition of the Company's Merritt facility and a gain on disposal of \$0.5 million was recognized. At December 31, 2021, the Merritt facility was classified as assets held for sale.

During the year ended December 31, 2022, proceeds of \$3.9 million were received for the disposition of the Company's Rocky View facility and no gain on disposal was recognized.

During the year ended December 31, 2022, the Company determined that indicators of impairment existed relating to idle machinery and equipment. The estimated recoverable amount of the assets was determined to be nil and an impairment of \$2.4 million was recorded. The impairment was recognized in the Company's cannabis operations reporting segment.

During the year ended December 31, 2022, the Company determined that indicators of impairment existed relating to its retail stores due to underperforming operating results of certain stores. For impairment testing of retail property, plant and equipment and right of use assets, the Company determined that a CGU was defined as each individual retail store. The Company completed impairment tests for each store location determined to have an indicator of potential impairment using a discounted cash flow methodology. The recoverable amounts for each CGU were based on the higher of its estimated value in use ("VIU") and fair value less costs of disposal ("FVLCD") using level 3 inputs (refer to note 31 for further discussion of each input level). The significant assumptions applied in the impairment test are described below:

Notes to the Consolidated Financial Statements

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- Cash flows: Estimated cash flows are based on forecasted EBITDA. The forecast is extended to a total of five years based on an analysis of the industry's expected growth rates, historical and forecast volume changes, and inflation rates, except where a CGU has a defined life due to lease expiration. Management determined forecasted growth rates of sales based on past performance and its expectations of future performance for each location. Expenditures were based upon a combination of historical percentages of revenue, sales growth rates, and contractual lease payments.
- Discount rate: The weighted average cost of capital was estimated to be 12.0% and is based on market capital structure of debt, risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a review of betas of comparable publicly traded companies, the Company's historical data, an unsystematic risk premium and after-tax cost of debt based on corporate bond yields.
- Long-term growth rate: Five years of cash flows have been included in the discounted cash flow models. Where a CGU's lease terms do not define the forecast period, maintainable debt-free net cash flow beyond the forecast period is estimated to approximate the fifth-year cash flows increased by a terminal growth rate of 2.5% and is based on the industry's expected growth rates, forecast inflation rates and management's experience.

As at December 31, 2022, the Company recorded impairment losses of property, plant and equipment of \$12.8 million with \$5.3 million in the cannabis retail reporting segment and \$7.5 million in the liquor retail reporting segment.

Due to curtailment in the utilization of a portion of the capacity in the Company's Olds facility to align cannabis production with current demand estimates, the Company determined that indicators of impairment existed at June 30, 2021. The impairment test for the Company's Olds CGU used a value in use approach based on internal cash flow estimates at June 30, 2021, and a discount rate of 25%. The discount rate was estimated based on the Company's weighted average cost of capital, adjusted for risks specific to the CGU. The estimated cash flows were based on a 5-year model taking into account the overall forecasted Canadian cannabis industry market size and the Company's forecasted market share. A terminal value thereafter was applied. Based on the analysis, there was an impairment of the Company's Olds CGU of \$60.0 million as at June 30, 2021, as the estimated recoverable amount for this CGU of \$70.0 million was lower than the respective carrying amount. The estimated value in use for the Company's Olds CGU was sensitive to an increase in the discount rate. An increase to the discount rate by 1% would increase the impairment by approximately \$7.3 million. The impairment was recognized in the Company's cannabis operations reporting segment.

14. NET INVESTMENT IN SUBLEASES

	December 31, 2022	December 31, 2021
Balance, beginning of year	26,562	—
Acquisition (note 5(b))	—	23,801
Additions	1,408	3,951
Finance income	833	573
Rents recovered (payments made directly to landlords)	(4,141)	(1,713)
Dispositions and remeasurements	(1,343)	(50)
Balance, end of year	23,319	26,562
Current portion	3,701	3,991
Long-term	19,618	22,571

Net investment in subleases represent leased retail stores that have been subleased to certain franchise partners. These subleases are classified as a finance lease as the sublease terms are for the remaining term of the head lease.

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15. INTANGIBLE ASSETS

	Brands and trademarks	Franchise agreements	Software	Retail Licenses	Total
Cost					
Balance at December 31, 2020	5,445	—	—	—	5,445
Acquisition (note 5(b)) ⁽¹⁾	36,000	10,000	—	—	46,000
Balance at December 31, 2021	41,445	10,000	—	—	51,445
Acquisition (note 5(a))	38,950	—	5,400	750	45,100
Additions	55	—	142	—	197
Dispositions	(50)	—	—	—	(50)
Balance at December 31, 2022	80,400	10,000	5,542	750	96,692
Accumulated amortization and impairment					
Balance at December 31, 2020	382	—	—	—	382
Amortization ⁽¹⁾	354	561	—	—	915
Balance at December 31, 2021	736	561	—	—	1,297
Amortization	293	1,250	679	—	2,222
Impairment	18,288	—	—	—	18,288
Balance at December 31, 2022	19,317	1,811	679	—	21,807
Net book value					
Balance at December 31, 2021	40,709	9,439	—	—	50,148
Balance at December 31, 2022	61,083	8,189	4,863	750	74,885

(1) Adjustment to provisional amounts — refer to note 5(b).

Brands and trademarks are related to intellectual property purchased from Sun 8 Holdings Inc. ("Sun 8") with a useful life of 15 years, other intellectual property with a useful life of 12 years, intellectual property acquired through the acquisition of Inner Spirit consisting of proprietary rights to brands and trademarks with an indefinite useful life, and intellectual property acquired through the acquisition of Alcanna with an indefinite useful life. The Inner Spirit and Alcanna brands and trademarks were determined to have an indefinite useful life due to the fact that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Franchise agreements consist of intellectual property acquired through the acquisition of Inner Spirit consisting of franchise relationships with a useful life of 8 years. Software is comprised of licenses acquired through the acquisition of Alcanna and are amortized using the straight-line method over the life of the license. Retail licenses acquired through the acquisition of Alcanna have an indefinite life and are therefore not amortized. The retail licenses do not expire, but rather are subject to an administrative extension process each year indefinitely.

During the three months ended September 30, 2022, the Company determined that indicators of impairment existed regarding the Sun 8 intellectual property due to decreasing market competition. The estimated recoverable amount of the intangible asset was determined to be \$2.5 million and an impairment of \$1.9 million was recorded. The impairment was recognized in the Company's cannabis operations reporting segment.

At September 30, 2022, the Company recorded impairments to intangible assets with indefinite useful lives of \$16.4 million due to changes in circumstances since the date of the Inner Spirit acquisition, mainly caused by the continued oversaturation of the cannabis retail market (note 5(b)).

At December 31, 2022, the Company tested intangible assets with indefinite useful lives and goodwill for impairment based on changes in circumstances since the date of the Alcanna and Nova acquisition, mainly caused by the continued oversaturation of the cannabis retail market (note 5(a)).

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16. INVESTMENTS

As at	December 31, 2022	December 31, 2021
Investments at amortized cost	24,493	24,987
Investments at FVTPL	72,761	48,576
	97,254	73,563
Current portion	6,552	3,065
Long-term	90,702	70,498

INVESTMENTS AT FVTPL**SUPERETTE**

On February 9, 2022, the Company closed an investment in a \$5.0 million promissory note with a maturity date of February 9, 2025, and an interest rate of 15% per annum. On August 26, 2022, November 22, 2022 and December 31, 2022, the Company entered into an amended and restated promissory note whereby the Company would advance additional funds up to \$8.1 million as part of pre-CCAA advances and debtor-in-possession advances and the maturity date was amended such that the full balance of the promissory note plus accrued interest and advances became due August 30, 2022. On August 31, 2022, the Company announced that, in the context of the initial order obtained by Superette Inc., Superette Ontario Inc. and certain of its subsidiaries (collectively, "Superette") from the Ontario Superior Court of Justice on August 30, 2022 pursuant to the CCAA proceedings, it had entered into an agreement of purchase and sale with Superette, pursuant to which it proposed to acquire substantially all of the business and assets of Superette. As at December 31, 2022, the Company had advanced an additional \$1.8 million under the amended and restated promissory note. Subsequent to December 31, 2022, the Company had advanced an additional \$0.3 million under the amended and restated promissory note. The Company has adjusted the fair value of the promissory note downward by \$3.7 million during the year ended December 31, 2022 (note 28) to management's best estimate of the recoverable value of the collateral underlying the security of the promissory note. On February 7, 2023, the Company announced the acquisition of Superette (note 36).

DELTA 9

On March 30, 2022, the Company closed an investment in a \$10.0 million convertible debenture with Delta 9 Cannabis Inc. with a maturity date of March 30, 2025, and an interest rate of 10% per annum. On August 11, 2022, and again on September 9, 2022, the Company waived compliance under certain covenants in exchange for a requirement to meet additional conditions.

ZENABIS

On June 17, 2022, Zenabis Global Inc. ("Zenabis Global"), as well as Zenabis Global's direct and indirect wholly owned subsidiaries (collectively, the "Zenabis Global Group"), filed a petition with the Québec Superior Court for protection under CCAA. On June 16, 2022 (and amended on July 5, 2022), the Company entered into a purchase agreement pursuant to which the shares of Zenabis Global and all business and assets of the Zenabis Global Group (the "Zenabis Business") would be acquired by SNDL. On November 1, 2022, the Company announced the acquisition of certain assets and permitted liabilities of Zenabis Global (note 5(c)). The Company has adjusted the fair value of the Zenabis Global senior loan downward by \$33.7 million (note 28) to management's best estimate of the fair value of the Zenabis Global senior loan at November 1, 2022, in accordance with the requirements of IFRS. The Zenabis Global senior loan was extinguished immediately preceding the business combination and forms the consideration transferred (note 5(c)).

VALENS

On August 22, 2022, the Company and The Valens Company Inc. ("Valens") announced that they had entered into an arrangement agreement (the "Valens Arrangement Agreement") to combine their businesses. Pursuant to the terms of the Valens Arrangement Agreement, the Company will acquire, subject to Valens' shareholder approval and

SNDL Inc.**Notes to the Consolidated Financial Statements**

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customary closing conditions, all of the issued and outstanding common shares of Valens, other than those owned by SNDL and its subsidiaries, by way of a statutory plan of arrangement (the "Valens Transaction"). In connection with the Valens Arrangement Agreement, the Company and Valens closed a \$60.0 million non-revolving term loan facility with a maturity date of December 15, 2023 and an interest rate of 10% per annum. The Valens Transaction closed on January 17, 2023 (note 36).

17. EQUITY-ACCOUNTED INVESTEEES

As at	December 31, 2022	December 31, 2021
Interest in joint venture (A)	519,255	412,858
Interest in associate (B)	—	—
	519,255	412,858

A) INTEREST IN JOINT VENTURE

SunStream is a joint venture in which the Company has a 50% ownership interest. SunStream is a private company, incorporated under the *Business Corporations Act* (Alberta), which provides growth capital that pursues indirect investment and financial services opportunities in the global cannabis sector, as well as other investment opportunities.

SunStream is structured as a separate vehicle and the Company has a residual interest in the net assets of SunStream. Accordingly, the Company has classified its interest in SunStream as a joint venture, which is accounted for using the equity-method.

The current investment portfolio of SunStream is comprised of secured debt, hybrid debt and derivative instruments with United States based cannabis businesses. These investments are recorded at fair value each reporting period with any changes in fair value recorded through profit or loss. SunStream actively monitors these investments for changes in credit risk, market risk and other risks specific to each investment.

As at December 31, 2022, the Company had funded \$514.7 million out of the total \$538.0 million that was originally committed to SunStream. Subsequent to December 31, 2022, the Company contributed \$10.9 million to SunStream.

The following table summarizes the carrying amount of the Company's interest in the joint venture:

	Carrying amount
Balance at December 31, 2020	—
Capital contributions	395,569
Share of net earnings	32,913
Share of other comprehensive income	9,878
Distributions	(25,502)
Balance at December 31, 2021	412,858
Capital contributions	119,137
Share of net earnings (loss)	(43,002)
Share of other comprehensive income	31,923
Distributions	(1,661)
Balance at December 31, 2022	519,255

SunStream is a related party due to it being classified as a joint venture of the Company. Capital contributions to the joint venture and distributions received from the joint venture are classified as related party transactions.

SNDL Inc.**Notes to the Consolidated Financial Statements**

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The following table summarizes the financial information of SunStream:

As at	December 31, 2022	December 31, 2021
Current assets (including cash and cash equivalents - 2022: \$1.5 million, 2021: \$0.2 million)	5,437	789
Non-current assets	509,418	407,860
Current liabilities	(1,146)	(1,596)
Net assets (liabilities) (100%)	513,709	407,053
Year ended December 31	2022	2021
Revenue (loss)	(35,046)	36,203
Profit (loss) from operations	(42,627)	32,841
Other comprehensive income	31,923	9,878
Total comprehensive income (loss)	(10,619)	42,747

B) INTEREST IN ASSOCIATE

The Company holds a 25% equity interest in its associate Pathway RX Inc. ("Pathway"). Pathway is a private company focused on developing cannabis-based pharmaceutical drugs to treat symptoms associated with a range of medical cannabis. The carrying amount of the Company's interest in Pathway is nil.

18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2022	December 31, 2021
Trade payables	9,774	4,172
Accrued and other liabilities	38,379	34,280
	48,153	38,452

19. DERIVATIVE WARRANTS

	December 31, 2022	December 31, 2021
Balance, beginning of year	21,700	428
2021 Series A and B Warrants - fair value on issuance	—	62,680
2021 Additional Series A and B Warrants - fair value on issuance	—	38,576
New Warrants - fair value on issuance recognized in profit or loss	—	106,531
Change in fair value recognized in profit or loss	(10,783)	(28,697)
Converted to common shares	—	(157,818)
Acquisition (note 5(a))	85	—
Balance, end of year	11,002	21,700

The carrying amount is an estimate of the fair value of the derivative warrants and is presented as a current liability. The derivative warrants are classified as a liability due to the Company's share price being denominated in USD, which creates variability as to the value in CAD when they are exercised. The derivative warrants are recorded as a current liability, however, the Company has no cash obligation nor is there any cash loss with respect to the derivative warrants, rather it will deliver common shares if and when warrants are exercised.

SNDL Inc.**Notes to the Consolidated Financial Statements**

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(Expressed in thousands of Canadian dollars, except where otherwise noted)

The following table summarizes outstanding derivative warrants as at December 31, 2022:

	Exercise price (USD)	Number of warrants	Weighted average contractual life
2020 Series A Warrants ⁽¹⁾	1.77	50,000	2.6
Unsecured Convertible Notes Warrants ⁽¹⁾	1.77	50,000	1.0
New Warrants ⁽²⁾	2.29	9,833,333	1.6
December 2018 Performance Warrants	CAD 5.51	118,067	1.0
		10,051,400	1.6

(1) The conversion or exercise price, as applicable, is subject to full ratchet antidilution protection upon any subsequent transaction at a price lower than the price then in effect and standard adjustments in the event of any share split, share dividend, share combination, recapitalization or other similar transaction. If the Company issues, sells or enters into any agreement to issue or sell, any variable rate securities, the investors have the additional right to substitute the variable price (or formula) of such securities for the conversion or exercise price, as applicable.

(2) The exercise price of the New Warrants was adjusted from USD \$15.00 to \$2.29 based on the July 26, 2022 Share Consolidation (as defined below) representing a share combination event (note 23(a)).

In connection with the Alcanna Transaction (note 5(a)), the Company acquired warrants previously issued by Nova (the "December 2018 Performance Warrants") that are classified as a liability.

The December 2018 Performance Warrants became immediately exercisable upon issuance. Each performance warrant includes a performance incentive that entitles the warrant holders to additional common shares of Nova upon exercise provided that the 20-day volume weighted average trading price of Nova's common shares (the "Market Price") equals or exceeds \$19.27 at any time prior to the expiration date of the warrants. The Market Price condition has not been met. As such, the fair value of the December 2018 Performance Warrants was recognized as a warrant liability, inclusive of a probability weighting associated with the performance incentive being met. Under the terms of the warrant agreements, each performance warrant can be exercised for 0.05449 to 0.08174 of a Nova common share (depending on whether performance conditions are met) prior to the expiration date of December 18, 2023, at an exercise price of \$5.51 per Nova common share. At December 31, 2022, there were 118,067 December 2018 Performance Warrants outstanding.

20. LEASE LIABILITIES

	December 31, 2022	December 31, 2021
Balance, beginning of year	33,470	1,440
Acquisition (note 5(a), note 5(c))	142,106	29,531
Additions	7,497	4,514
Lease payments	(31,834)	(2,721)
Dispositions and remeasurements	10,890	(70)
Tenant inducement allowances received	1,799	—
Accretion expense	5,903	776
Balance, end of year	169,831	33,470
Current portion	30,206	5,701
Long-term	139,625	27,769

The following table presents the contractual undiscounted cash flows, excluding periods covered by lessee lease extension options that have been included in the determination of the lease term, related to the Company's lease liabilities as at December 31, 2022:

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	December 31, 2022
Less than one year	39,255
One to three years	64,892
Three to five years	48,955
Thereafter	47,468
Minimum lease payments	200,570

The Company has short-term leases with lease terms of 12 months or less as well as low-value leases. As these costs are incurred, they are recognized as general and administrative expense. These costs were immaterial in 2022 and 2021.

21. OTHER LIABILITIES

	December 31, 2022	December 31, 2021
Financial guarantee liability (A)	407	466
Deferred share units liability (B)	2,302	4,039
	2,709	4,505

A) FINANCIAL GUARANTEE LIABILITY

For franchise operated locations where the Company provided an indemnity for its franchisees, lease payments are made directly to the landlord by the franchisee, and the obligation to make lease payments would only revert to the Company if a franchisee defaulted on their obligations under the terms of the sub-lease or lease. The Company has made an estimate of ECLs in the event of default by the franchisees in making lease payments. This amount is recognized as a financial guarantee liability in the consolidated statement of financial position, and changes in the estimated liability are recognized as a financial guarantee liability expense within finance costs (note 28) in the consolidated statement of loss and comprehensive loss.

B) DSU LIABILITY

Deferred share units ("DSUs") are granted to directors and generally vest in equal instalments over one year. DSUs are settled by making a cash payment to the holder, equal to the fair value of the Company's common shares calculated at the date of such payment, when a director leaves the board. DSUs are accounted for as a liability instrument and measured at fair value based on the market value of the Company's common shares at each period end. Changes in the fair value are recognized within share-based compensation expense (note 24(d)).

22. INCOME TAXES

The following table reconciles the expected income tax expense (recovery) at the Canadian federal and provincial statutory income tax rates to the amounts recognized in profit and loss for the years ended December 31, 2022, December 31, 2021 and December 31, 2020:

	December 31, 2022	December 31, 2021	December 31, 2020
Loss before taxes	(379,770)	(234,698)	(206,317)
Statutory income tax rates	23.0%	23.0%	24.0%
Expected income tax recovery	(87,347)	(53,981)	(49,516)
Non-deductible share-based compensation	2,508	2,308	1,970
Non-deductible finance expense	—	2	2,130
Revaluation of the fair value of warrant liabilities	(2,461)	17,902	—
Non-controlling interest	8,167	—	—
Non-deductible portion of capital losses	7,458	5,118	—
Other non-deductible expenses	5,409	610	348
Goodwill impairment	35,919	—	—
Change in tax rates	—	—	1,528
Deferred tax benefits not recognized	23,005	20,127	43,540
Income tax (recovery) expense	(7,342)	(7,914)	—

Details of the deferred tax assets (liabilities) are as follows:

	December 31, 2022	December 31, 2021
Deferred tax assets (liabilities):		
Inventory	23,329	20,472
Biological assets	(9,451)	(9,509)
Net investment in subleases	(5,363)	(6,119)
Intangible assets	(16,632)	—
Lease liabilities	(5,488)	(8,361)
Marketable securities	14,981	7,442
Equity-accounted investee	(1,376)	(3,925)
Net deferred tax asset (liability)	—	—

Deferred tax assets have not been recognized for the following deductible temporary differences:

	December 31, 2022	December 31, 2021
Unrecognized deductible temporary differences:		
Property, plant and equipment	7,413	81,583
Intangible assets	183	(45,256)
Share issue costs	28,926	23,835
Investments	18,239	3,300
Lease liabilities	193,691	69,865
Financial obligations and other	2,300	4,100
Non-capital losses & scientific research and experimental development	490,326	220,596
Unrecognized deductible temporary differences	741,078	358,023

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The movement in deferred income tax liability is as follows:

	December 31, 2022	December 31, 2021
Balance, beginning of year	—	—
Recognized in profit and loss	(7,342)	(7,914)
Recognized in other comprehensive income	7,342	7,914
Balance, end of year	—	—

The Company has \$490.3 million (December 31, 2021 - \$218.5 million) of non-capital losses available for future periods that will expire prior to 2037-2042.

23. SHARE CAPITAL AND WARRANTS

A) AUTHORIZED

The authorized capital of the Company consists of an unlimited number of voting common shares and preferred shares with no par value.

On July 26, 2022, the Board approved a 1 to 10 share consolidation of the Company's issued and outstanding common shares (the "Share Consolidation"). Each shareholder of record of the Company as of the close of business on the record date of July 25, 2022, received 1 common share for each 10 shares held on such date.

All references to common shares, warrants, derivative warrant liabilities, simple warrants, performance warrants, stock options, RSUs and DSUs (excluding the Nova RSUs and DSUs) have been fully retrospectively adjusted to reflect the Share Consolidation.

B) ISSUED AND OUTSTANDING

		December 31, 2022		December 31, 2021	
	Note	Number of Shares	Carrying Amount	Number of Shares	Carrying Amount
Balance, beginning of year		206,040,836	2,035,704	91,884,413	762,046
Share issuances		370,179	2,870	95,680,666	977,425
Share issuance costs		—	—	—	(16,371)
Share repurchases		(4,252,489)	(41,617)	—	—
Acquisition	5	32,060,135	287,129	2,443,128	26,216
Convertible debenture settlement		—	—	248,875	2,671
Derivative warrants exercised		—	—	15,214,695	277,136
Warrants exercised		—	—	19,571	178
Employee awards exercised ⁽¹⁾		975,575	8,724	549,488	6,403
Balance, end of year		235,194,236	2,292,810	206,040,836	2,035,704

(1) Included in employee awards exercised are 87,500 RSUs that vested and were exercised in December 2020; however, the common shares were not issued until January 2021. Included in employee awards exercised are 50,000 RSUs that vested and were exercised in December 2021; however, the common shares were not issued until January 2022.

For the year ended December 31, 2022, the Company purchased and cancelled 4.3 million common shares at a weighted average price of \$3.12 (US\$2.33) per common share for a total cost of \$13.3 million. Accumulated deficit was reduced by \$28.3 million, representing the excess of the average carrying value of the common shares over their purchase price.

Subsequent to December 31, 2022, the Company purchased and cancelled 0.5 million common shares at a weighted average price of \$2.78 (US\$2.04) per common share for a total cost of \$1.5 million.

SNDL Inc.**Notes to the Consolidated Financial Statements**

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(C) COMMON SHARE PURCHASE WARRANTS

	Number of Warrants	Carrying Amount
Balance at December 31, 2020	102,400	6,138
Acquisition (note 5(b))	209,783	1,771
Warrants issued	64,000	361
Warrants exercised	(19,571)	(178)
Balance at December 31, 2021	356,612	8,092
Warrants expired	(48,000)	(5,832)
Balance at December 31, 2022	308,612	2,260

During the year ended December 31, 2022, the warrants issued in relation to the acquisition of a financial obligation expired.

During the year ended December 31, 2021, the Company issued 64,000 warrants to Sun 8 Holdings Inc. ("Sun 8") with an exercise price of \$9.40 per unit, in conjunction with achieving minimum thresholds of revenue derived from the brands or cultivars that the Company acquired from Sun 8 during the year ended December 31, 2019.

During the year ended December 31, 2021, 19,571 warrants that formed part of the contingent consideration from the Inner Spirit Transaction, were exercised resulting in a net payment of \$0.2 million representing the difference between the exercise prices and the cash consideration (note 5(b)). The carrying value of the exercised warrants was adjusted from warrants to share capital.

The following table summarizes outstanding warrants as at December 31, 2022:

Warrants outstanding and exercisable			
Issued in relation to	Weighted average exercise price	Number of warrants	Weighted average contractual remaining life (years)
Financial services	45.98	54,400	6.6
Acquired from Inner Spirit ⁽¹⁾	3.37	190,212	1.2
Sun 8	9.40	64,000	3.0
	\$ 12.13	308,612	2.5

(1) Inner Spirit warrants are exchangeable for 0.00835 SNDL common shares in accordance with the Inner Spirit Transaction consideration (note 5(b)) and have been presented based on the number of SNDL common shares that are issuable.

24. SHARE-BASED COMPENSATION

The Company has a number of share-based compensation plans which include simple and performance warrants, stock options, RSUs and DSUs. Further detail on each of these plans is outlined below. Subsequent to the Company's initial public offering, the Company established the stock option, RSU and DSU plans to replace the granting of simple warrants and performance warrants.

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The components of share-based compensation expense are as follows:

	2022	2021	Year ended December 31 2020
Equity-settled expense			
Simple warrants (A)	1,299	2,899	1,539
Performance warrants (A)	—	361	(42)
Stock options (B)	78	(14)	651
Restricted share units ⁽¹⁾ (C)	9,423	6,789	4,069
Cash-settled expense			
Deferred share units ⁽¹⁾⁽²⁾ (D)	(1,129)	2,272	2,349
	9,671	12,307	8,566

(1) For the year ended December 31, 2022, the Company recognized share-based compensation recovery under Nova's RSU plan of \$107 and share-based compensation expense under Nova's DSU plan of \$404.

(2) Cash-settled DSUs are accounted for as a liability and are measured at fair value based on the market value of the Company's common shares at each reporting period. Fluctuations in the fair value are recognized during the period in which they occur.

EQUITY-SETTLED PLANS**A) SIMPLE AND PERFORMANCE WARRANTS**

The Company issued simple warrants and performance warrants to employees, directors and others at the discretion of the Board. Simple and performance warrants granted generally vest annually over a three-year period, simple warrants expire five years after the grant date and performance warrants expire five years after vesting criteria met.

The following table summarizes changes in the simple and performance warrants during the year ended December 31, 2022 and the year ended December 31, 2021:

	Simple warrants outstanding	Weighted average exercise price	Performance warrants outstanding	Weighted average exercise price
Balance at December 31, 2020	342,460	\$ 44.13	167,200	\$ 41.89
Forfeited	(66,880)	33.62	(20,480)	54.80
Exercised	(12,000)	9.38	(8,000)	10.94
Expired	(4,160)	34.51	—	0.00
Balance at December 31, 2021	259,420	\$ 48.60	138,720	\$ 41.77
Forfeited	(82,400)	57.77	(15,520)	37.86
Expired	(11,200)	6.25	—	0.00
Balance at December 31, 2022	165,820	\$ 46.91	123,200	\$ 42.26

Notes to the Consolidated Financial Statements

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(Expressed in thousands of Canadian dollars, except where otherwise noted)

The following table summarizes outstanding simple and performance warrants as at December 31, 2022:

Range of exercise prices	Warrants outstanding			Warrants exercisable		
	Number of warrants	Weighted average exercise price	Weighted average contractual life (years)	Number of warrants	Weighted average exercise price	Weighted average contractual life (years)
Simple warrants						
\$6.25 - \$9.38	75,340	7.25	1.40	75,340	7.25	1.40
\$29.69 - \$45.31	27,120	31.26	1.61	26,320	31.02	1.54
\$62.50 - \$93.75	49,920	63.50	4.05	49,920	63.50	4.05
\$125.00 - \$375.00	13,440	239.15	4.62	7,040	205.18	3.70
	165,820	\$ 46.91	2.49	158,620	\$ 37.68	2.36
Performance warrants						
\$6.25 - \$9.38	45,066	6.71	n/a	45,066	6.71	2.00
\$12.50 - \$18.75	17,334	15.15	n/a	17,334	15.15	0.93
\$29.69 - \$45.31	42,400	31.99	n/a	42,400	31.99	1.22
\$62.50 - \$93.75	9,334	77.68	n/a	1,334	93.75	1.10
\$125.00 - \$375.00	9,066	282.36	n/a	—	—	n/a
	123,200	\$ 42.26	n/a	106,134	\$ 19.28	1.91

B) STOCK OPTIONS

The Company issues stock options to employees and others at the discretion of the Board. Stock options granted generally vest annually in thirds over a three-year period and generally expire ten years after the grant date.

The following table summarizes changes in stock options during the year ended December 31, 2022 and the year ended December 31, 2021:

	Stock options outstanding	Weighted average exercise price
Balance at December 31, 2020	72,060	\$ 18.18
Forfeited	(27,500)	26.05
Expired	(100)	31.50
Balance at December 31, 2021	44,460	\$ 13.28
Expired	(100)	31.50
Balance at December 31, 2022	44,360	\$ 13.24

The following table summarizes outstanding stock options as at December 31, 2022:

Exercise prices	Stock options outstanding		Stock options exercisable	
	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
\$11.50	32,500	7.41	21,667	7.41
\$11.90	8,160	7.49	8,160	7.49
\$31.50	3,700	5.51	3,025	5.38
	44,360	7.27	32,852	7.24

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C) RESTRICTED SHARE UNITS

RSUs are granted to employees and the vesting requirements and maximum term are at the discretion of the Board. RSUs are exchangeable for an equal number of common shares.

The following table summarizes changes in RSUs during the year ended December 31, 2022 and the year ended December 31, 2021:

	RSUs outstanding
Balance at December 31, 2020	165,692
Granted	1,238,152
Forfeited	(158,263)
Exercised	(491,988)
Balance at December 31, 2021	753,593
Granted	1,728,557
Forfeited	(175,245)
Exercised	(925,575)
Balance at December 31, 2022	1,381,330

Subsequent to December 31, 2022, the Company granted 7.8 million RSUs to employees as part of its long-term incentive program.

CASH-SETTLED PLANS**D) DEFERRED SHARE UNITS**

DSUs are granted to directors and generally vest in equal instalments over one year. DSUs are settled by making a cash payment to the holder equal to the fair value of the Company's common shares calculated at the date of such payment. DSUs are accounted for as a liability instrument and measured at fair value based on the market value of the Company's common shares at each period end.

As at December 31, 2022, the Company recognized a liability of \$2.3 million relating to the fair value of cash-settled DSUs (December 31, 2021 – \$4.0 million). The liability is included as a non-current liability within other liabilities (note 21).

The following table summarizes changes in DSUs during the year ended December 31, 2022 and the year ended December 31, 2021:

	DSUs outstanding
Balance at December 31, 2020	332,331
Granted	248,919
Exercised	(30,000)
Balance at December 31, 2021	551,250
Granted	1,216,076
Exercised	(58,943)
Balance at December 31, 2022	1,708,383

As at December 31, 2022, nil (December 31, 2021 – 0.6 million) DSUs were exercisable.

25. GROSS REVENUE

Liquor retail revenue is derived from the sale of wines, beers and spirits to customers. Cannabis retail revenue is derived from retail cannabis sales to customers, franchise revenue consists of royalty, advertising and franchise fee

SNDL Inc.**Notes to the Consolidated Financial Statements**

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revenue, and other revenue consists of millwork, supply and accessories revenue and proprietary licensing. Cannabis revenue is derived from contracts with customers and is comprised of sales to Provincial boards that sell cannabis through their respective distribution models, sales to licensed producers for further processing, and sales to medical customers.

			Year ended December 31
	2022	2021	2020
Liquor retail revenue	462,180	—	—
Cannabis retail revenue			
Retail	192,710	10,207	—
Franchise	8,337	4,251	—
Other	4,563	1,633	—
Cannabis retail revenue	205,610	16,091	—
Cannabis revenue			
Provincial boards	58,728	41,338	55,315
Medical	9	8	32
Wholesale	3,167	9,842	17,974
Cannabis revenue	61,904	51,188	73,321
Gross revenue	729,694	67,279	73,321

The Company has recognized the following receivables from contracts with customers:

	December 31, 2022	December 31, 2021	December 31, 2020
Receivables, included in 'trade receivables' (note 9)	17,558	10,865	15,786

Receivables from contracts with customers are typically settled within 30 days. As at December 31, 2022, an impairment of \$0.6 million (December 31, 2021 – \$0.2 million) has been recognized on receivables from contracts with customers (note 31).

26. INVESTMENT REVENUE (LOSS)

			Year ended December 31
	2022	2021	2020
Interest and fee revenue			
Interest revenue from investments at amortized cost	3,660	1,654	—
Interest and fee revenue from investments at FVTPL	6,036	8,514	—
Interest revenue from cash	7,043	2,981	—
	16,739	13,149	—

			Year ended December 31
	2022	2021	2020
Investment loss			
Realized gains	389	20,213	—
Unrealized (losses) gains (note 8)	(65,553)	(64,714)	—
	(65,164)	(44,501)	—

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27. OTHER OPERATING EXPENSES**A) GENERAL AND ADMINISTRATIVE**

			Year ended December 31
	2022	2021 ⁽¹⁾	2020
Salaries and wages	80,134	18,675	11,634
Consulting fees	1,934	1,112	2,193
Office and general	37,061	7,560	9,843
Professional fees	11,563	6,530	4,658
Merchant processing fees	4,748	—	—
Director fees	472	351	365
Other	4,256	3,815	3,336
	140,168	38,043	32,029

(1) Adjustment to provisional amounts — refer to note 5(b).

B) SALES AND MARKETING

			Year ended December 31
	2022	2021	2020
Marketing	7,308	3,671	4,839
Events	102	191	393
Research	—	43	57
Media	1,007	1,138	448
	8,417	5,043	5,737

28. FINANCE COSTS

			Year ended December 31
	2022	2021	2020
Cash finance expense			
Interest on long-term debt	—	—	7,482
Other finance costs	178	40	286
	178	40	7,768
Non-cash finance expense (income)			
Change in fair value of investments at FVTPL	36,087	3,300	—
Accretion on lease liabilities	5,903	776	89
Financial guarantee liability (recovery) expense	(59)	59	—
Accretion	—	—	1,622
Amortization of debt issue costs	—	—	1,782
Change in fair value of convertible notes	—	—	(7,141)
Other	89	154	(86)
	42,020	4,289	(3,734)
Interest income	(884)	(573)	(215)
	41,314	3,756	3,819

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29. SUPPLEMENTAL CASH FLOW DISCLOSURES

			Year ended December 31
	2022	2021	2020
Cash provided by (used in):			
Accounts receivable	(5,815)	9,339	(2,037)
Biological assets	533	3,829	13,789
Inventory	4,243	(18,318)	(12,315)
Prepaid expenses and deposits	5,782	(3,922)	2,280
Investments	918	(402)	—
Right of use assets	(17,510)	—	—
Property, plant and equipment	38	(305)	—
Accounts payable and accrued liabilities	(27,864)	9,665	(20,793)
Lease liabilities	19,296	—	—
	(20,379)	(114)	(19,076)
Changes in non-cash working capital relating to:			
Operating	(22,073)	150	(5,259)
Investing	74	(612)	(11,319)
Financing	1,620	348	(2,498)
	(20,379)	(114)	(19,076)
Cash interest paid	—	—	6,094

30. LOSS PER SHARE

			Year ended December 31
	2022	2021	2020
Weighted average shares outstanding (000s)			
Basic and diluted ⁽¹⁾	229,871	186,038	21,865
Continuing operations			
Net loss attributable to owners of the Company	(335,114)	(226,984)	(199,619)
Per share - basic and diluted	\$ (1.46)	\$ (1.22)	\$ (9.13)
Discontinued operations			
Net loss attributable to owners of the Company	—	—	(33,627)
Per share - basic and diluted	\$ —	\$ —	\$ (1.54)
Net loss attributable to owners of the Company	(335,114)	(226,984)	(233,246)
Per share - basic and diluted	\$ (1.46)	\$ (1.22)	\$ (10.67)

(1) For the year ended December 31, 2022, there were 0.3 million equity classified warrants, 10.1 million derivative warrants, 0.2 million simple warrants, 0.1 million performance warrants, 0.04 million stock options and 1.4 million RSUs that were excluded from the calculation as the impact was anti-dilutive (year ended December 31, 2021 – 0.4 million equity classified warrants, 9.9 million derivative warrants, 0.3 million simple warrants, 0.1 million performance warrants, 0.04 million stock options and 0.8 million RSUs, year ended December 31, 2020 – 0.1 million equity classified warrants, 0.2 million derivative warrants, 0.3 million simple warrants, 0.2 million performance warrants, 0.07 million stock options and 0.2 million RSUs).

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31. FINANCIAL INSTRUMENTS

The financial instruments recognized on the consolidated statement of financial position are comprised of cash and cash equivalents, restricted cash, marketable securities, accounts receivable, investments at amortized cost, investments at FVTPL, accounts payable and accrued liabilities and derivative warrants.

A) FAIR VALUE

The carrying value of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the short-term nature of the instruments. The carrying value of investments at amortized cost approximate their fair value as the fixed interest rates approximate market rates for comparable transactions.

Fair value measurements of marketable securities, investments at FVTPL and derivative warrants are as follows:

	Carrying amount	Fair value measurements using		
		Level 1	Level 2	Level 3
December 31, 2022				
Recurring measurements:				
Financial assets				
Marketable securities	21,926	21,926	—	—
Investments at FVTPL	72,761	—	—	72,761
Financial liabilities				
Derivative warrants ⁽¹⁾	11,002	—	—	11,002
<hr/>				
	Carrying amount	Fair value measurements using		
		Level 1	Level 2	Level 3
December 31, 2021				
Recurring measurements:				
Financial assets				
Marketable securities	83,724	83,724	—	—
Investments at FVTPL	48,576	—	—	48,576
Financial liabilities				
Derivative warrants ⁽¹⁾	21,700	—	—	21,700

(1) The carrying amount is an estimate of the fair value of the derivative warrants and is presented as a current liability. The Company has no cash obligation with respect to the derivative warrants, rather it will deliver common shares if and when warrants are exercised.

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Marketable securities are designated as FVTPL. The fair value of marketable securities is re-measured each reporting period with changes in fair value recognized in profit and loss. The fair value of marketable securities is estimated by using current quoted prices in active markets for identical assets.

Level 2 – quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

As at December 31, 2022, the Company did not have any financial instruments measured at Level 2 fair value.

Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Investments designated as FVTPL are re-measured each reporting period with changes in the fair value recognized in profit and loss within finance costs. The fair values of the investments were estimated by using a discounted

cash flow analysis. The main assumptions used in the calculation were the determination of a credit-adjusted discount rate.

Derivative warrants are designated as FVTPL. The fair value of derivative warrants is re-measured each reporting period with changes in fair value recognized in profit and loss within finance costs. The fair value of derivative warrants is estimated by using a valuation model. Assumptions used in these calculations include volatility, discount rate and various probability factors.

At December 31, 2022, a 10% change in the material assumptions would change the estimated fair value of derivative warrant liabilities by approximately \$1.3 million.

There were no transfers between Levels 1, 2 and 3 inputs during the year.

B) CREDIT RISK MANAGEMENT

Credit risk is the risk of financial loss if the counterparty to a financial transaction fails to meet its obligations. The Company manages risk over its accounts receivable by issuing credit only to credit worthy counterparties. The Company limits its exposure to credit risk over its investments by ensuring the agreements governing the investments are secured in the event of counterparty default. The Company considers financial instruments to have low credit risk when its credit risk rating is equivalent to investment grade. The Company assumes that the credit risk on a financial asset has increased significantly if it is outstanding past the contractual payment terms. The Company considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Company.

The Company applies the simplified approach under IFRS 9 to accounts receivable and has calculated ECLs based on lifetime expected credit losses, taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions.

Impairment losses on accounts receivable recognized in profit or loss were as follows:

As at	December 31, 2022	December 31, 2021
Impairment loss (reversal) on trade receivables	642	214
Impairment loss (reversal) on other receivables	674	798
	1,316	1,012

The movement in the allowance for impairment in respect of accounts receivable during the year ended December 31, 2022 was as follows:

	December 31, 2022	December 31, 2021
Balance, beginning of year	1,132	120
Net remeasurement of impairment loss allowance	1,316	1,012
Balance, end of year	2,448	1,132

The Company applies the general approach under IFRS 9 to investments, which is an assessment of whether the credit risk of a financial instrument has increased significantly since initial recognition. The general approach compares the risk of a default occurring at the reporting date with the risk of a default occurring at the date of initial recognition. The Company has evaluated the credit risk of its investments, taking into consideration the risk of default, historical credit loss experience, financial factors specific to the debtors and general economic conditions and determined the expected credit loss to be \$0.5 million for the year ended December 31, 2022.

The maximum amount of the Company's credit risk exposure is the carrying amounts of cash and cash equivalents, accounts receivable and investments. The Company attempts to mitigate such exposure to its cash by investing only in financial institutions with investment grade credit ratings or secured investments.

C) MARKET RISK MANAGEMENT

Market risk is the risk that changes in market prices will affect the Company's income or value of its holdings of financial instruments. The Company is exposed to market risk in that changes in market prices will cause fluctuations

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in the fair value of its marketable securities. The fair value of marketable securities is based on quoted market prices as the Company's marketable securities are shares held of publicly traded entities and put and call options.

At December 31, 2022, a 10% change in the market prices would change the fair value of marketable securities by approximately \$2.1 million.

The Company had no risk management contracts relating to marketable securities outstanding as at December 31, 2022.

D) LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Company cannot meet its financial obligations when due. The Company manages liquidity risk by monitoring operating and growth requirements. Management believes its current capital resources and its ability to manage cash flow and working capital levels will be sufficient to satisfy cash requirements associated with funding the Company's operating expenses to maintain capacity and fund future development activities for at least the next 12 months. However, no assurance can be given that this will be the case or that future sources of capital will not be necessary.

The timing of expected cash outflows relating to financial liabilities at December 31, 2022 is as follows:

	Less than one year	One to three years	Three to five years	Thereafter	Total
Accounts payable and accrued liabilities	48,153	—	—	—	48,153
Financial guarantee liability (note 21)	—	407	—	—	407
Balance, end of year	48,153	407	—	—	48,560

32. RELATED PARTY TRANSACTIONS

The Company entered into the following related party transactions during the periods noted, in addition to those disclosed in note 17 relating to the Company's joint venture.

A member of key management personnel jointly controls a company that owns property leased to SNDL for one of its retail liquor stores. The lease term is from November 1, 2017 to October 31, 2027 and includes extension terms from November 1, 2027 to October 31, 2032 and November 1, 2032 to October 31, 2037. Monthly rent for the location includes base rent, common area costs and sign rent. The rent amounts are subject to increases in accordance with the executed lease agreement. Subsequent to the Alcanna Transaction and for the period March 31, 2022 to December 31, 2022, the Company paid \$117.9 thousand in total rent with respect to this lease.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The Company considers directors and officers of the Company as key management personnel.

	Year ended December 31		
	2022	2021	2020
Salaries and short-term benefits	4,505	2,348	1,944
Share-based compensation	5,871	8,275	7,629
	10,376	10,623	9,573

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33. CAPITAL MANAGEMENT

The Company defines capital as shareholders' equity and debt. Except as otherwise disclosed in these consolidated financial statements, there are no restrictions on the Company's capital. The Company's objectives with respect to the management of capital are to:

- Maintain financial flexibility in order to preserve the ability to meet financial obligations;
- Deploy capital to provide an appropriate investment return to shareholders; and
- Maintain a capital structure that allows various financing alternatives.

34. NON-CONTROLLING INTERESTS

The following tables provide summarized financial information for the Company's subsidiary, Nova, that has a material non-controlling interest effective the date of closing of the Alcanna Transaction, before inter-company eliminations. The Company does have subsidiaries with non-material non-controlling interests that are not presented in the following financial information.

A) NOVA SUMMARIZED STATEMENT OF FINANCIAL POSITION

	2022
Current assets	18,732
Current liabilities	19,892
Current net assets	(1,160)
Non-current assets	94,419
Non-current liabilities	45,443
Non-current net assets	48,976
Net assets	47,816

B) NOVA SUMMARIZED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

	2022
Revenue	176,588
Loss and comprehensive loss	(7,672)

C) NOVA SUMMARIZED STATEMENT OF CASH FLOWS

	2022
Net cash provided by operating activities	5,848
Net cash used in investing activities	(5,549)
Net cash used in financing activities	(183)
Increase in cash	116

35. COMMITMENTS AND CONTINGENCIES**A) COMMITMENTS**

The Company has entered into certain supply agreements to provide dried cannabis and cannabis products to third parties. The contracts require the provision of various amounts of dried cannabis on or before certain dates. Should the Company not deliver the product in the agreed timeframe, financial penalties apply which may be paid either in product in-kind or cash. Under these agreements, the Company has accrued financial penalties payable as at December 31, 2022 of \$2.5 million (December 31, 2021 - \$2.5 million).

B) CONTINGENCIES

From time to time, the Company may become involved in legal proceedings arising in the ordinary course of our business. Such proceedings, certain of which have been threatened against us, could include commercial litigation related to breach of contract claims brought by our customers, franchise partners, suppliers and contractors, as well as litigation related to termination of certain of our employees. The outcome of any litigation is inherently uncertain. Although we believe we have meritorious defenses against all currently pending and threatened proceedings and intend to vigorously defend all claims if they are brought, unfavorable rulings, judgements or settlement terms could have an adverse impact on our business and results of operations.

In connection with our initial public offering ("IPO"), we and certain of our current and former officers and directors, as well as the underwriters of our IPO, were named as defendants in several putative shareholder class action lawsuits filed between September 9, 2019 and November 1, 2019. The cases were consolidated in two separate actions depending on the court in which they were first filed, one in the Supreme Court of New York, New York County, captioned *In re SNDL Inc. Securities Litigation*, Index No. 655178/2019 (the "New York IPO Action"), and the other in the United States District Court for the Southern District of New York, captioned *In re SNDL Inc. Securities Litigation*, Master Case No. 1:19-cv-08913-ALC (the "Federal IPO Action"). The complaints in each of the two consolidated actions asserted claims under Sections 11, 12(a)(2), and 15 of the U.S. Securities Act of 1933, as amended (the "Securities Act"). They generally alleged that we made material misstatements and omissions in the prospectus and registration statement in connection with the IPO with respect to, among other things, the failure to disclose systemic quality control issues as well as the return of cannabis and termination of the supply agreement by one of the Company's customers. The complaint in the Federal IPO Action also included allegations that we made misstatements as to revenue. The New York IPO Action was dismissed on May 15, 2020 and the dismissal was affirmed on February 16, 2021, by the Appellate Division, First Judicial Department, of the Supreme Court of New York.

In the Federal IPO Action, the court denied defendants' motion to dismiss on March 30, 2021. On August 27, 2021, following a mediation, the parties notified the court that they had reached an agreement in principle to settle the Federal IPO Action. On December 2, 2021, the parties executed a settlement agreement, which was submitted to the court for approval on December 3, 2021. On October 5, 2022, the court entered an order and final judgement approving the settlement.

In addition, on May 7, 2020, the Company and certain of its current and former directors and officers were named as defendants in a lawsuit, captioned *SUN, a Series of E Squared Investment Fund, LLC et al. v. SNDL Inc. et al.*, Case No. 1:20-cv-03579-ALC, in the United States District Court for the Southern District of New York. The complaint asserted claims for alleged violations of U.S. federal securities laws, including Sections 12(a)(2) and 15 of the Securities Act and Section 10(b) the Exchange Act, as well as claims for breach of contract, fraud in the inducement and negligent misrepresentation. Among other things, the complaint alleged that the Company made misrepresentations regarding the licensing and ability of Bridge Farm to export hemp and CBD to Europe, as well as regarding the quality of the Company's cannabis. On September 30, 2021, the court granted defendants' motion to dismiss and dismissed the case, dismissing the claims under the U.S. federal securities laws with prejudice and the remaining claims without prejudice.

36. SUBSEQUENT EVENTS

VALENS ACQUISITION

On August 22, 2022, the Company and The Valens Company Inc. ("Valens") announced that they had entered into an arrangement agreement (the "Valens Arrangement Agreement") pursuant to which the Company would acquire, subject to Valens' shareholder approval and customary closing conditions, all of the issued and outstanding common shares of Valens, other than those owned by SNDL and its subsidiaries, by way of a statutory plan of arrangement (the "Valens Transaction"). Concurrently with the execution of the Valens Arrangement Agreement, the Company assumed Valens' non-revolving term loan facility from its then-existing lender, and amended and restated the related credit agreement to provide for a \$60.0 million non-revolving term loan facility with a maturity date of December 15,

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2023 and an interest rate of 10% per annum (the "Valens Facility"). As Valens is now a wholly-owned subsidiary of the Company, the Valens Facility became inter-company debt following the closing of the Valens Transaction. The Valens Transaction closed on January 17, 2023.

The Valens Transaction consideration was comprised of (i) the assumption of Valens' \$60 million non-revolving term loan facility from its then existing lender, as described above, and (ii) an aggregate 27.6 million SNDL common shares valued at \$84.0 million based on the fair value of each common share of the Company on the closing date (0.3334 of a SNDL common share for each Valens common share).

Valens is a manufacturer of cannabis products providing proprietary cannabis processing services, in addition to product development, manufacturing, and commercialization of cannabis consumer packaged goods. Valens products are formulated for the medical, health and wellness, and recreational consumer segments. Valens also distributes medicinal cannabis products to Australia through its subsidiary Valens Australia Pty Ltd. ("Valens Australia"). Additionally, Valens manufactured, distributed, and sold a wide range of CBD products in the United States through its subsidiary Green Roads, Inc. ("Green Roads"), prior to the Valens Transaction. Green Roads filed for bankruptcy in the United States on March 6, 2023. The Company has provided a superpriority secured debtor-in-possession line of credit to Green Roads in the amount of USD \$1.75 million.

Due to the proximity of the closing of the Valens Transaction and the date of issuance of the consolidated financial statements, the Company has not yet prepared the acquisition date fair value of the total consideration transferred or the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed.

SUPERETTE ACQUISITION

On February 7, 2023, the Company announced that, in the context of the Superette Group's (as defined below) proceedings under the CCAA, it had successfully closed the Superette Transaction (as defined below) contemplated by the agreement of purchase and sale dated August 29, 2022 (as amended and restated on December 12, 2022) (the "APS") and the approval and vesting order issued by the Ontario Superior Court of Justice (Commercial List) on December 20, 2022.

The Superette Group sells cannabis and non-cannabis branded merchandise and has furthered its market exposure and brand awareness through private-label cannabis offerings. Pursuant to the APS, certain of the Superette entities, including Superette Inc. and Superette Ontario Inc. ("Superette Ontario") (collectively, the "Superette Group"), have sold their right, title and interest in (i) the five Superette retail locations within Toronto and Ottawa; (ii) the intellectual property rights related to the Superette brand (the "Superette IP"); and (iii) the shares of Superette Ontario (collectively, the "Superette Transaction").

Pursuant to applicable laws and regulatory considerations, SNDL directed that the shares of Superette Ontario be transferred to Spirit Leaf Ontario Inc. ("SLO"). SNDL has entered into an option agreement with SLO to purchase all of the issued and outstanding shares of Superette Ontario if certain conditions are met, including compliance with regulatory considerations. The retail locations and intellectual property were transferred to Superette Ontario to assist in operating the retail locations and the Superette IP was transferred to SNDL directly. Certain of the Superette IP will be licensed by SNDL to SLO to allow it to use the Superette brand in the retail locations.

Due to the proximity of the closing of the Superette Transaction and the date of issuance of the consolidated financial statements, the Company has not yet prepared the acquisition date fair value of the total consideration transferred or the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed.

LIGHTBOX ACQUISITION

On March 28, 2023, the Company announced that it had entered into an agreement (the "Lightbox Agreement") with Lightbox Enterprises Ltd. ("Lightbox") to acquire four cannabis retail stores operating under the Dutch Love Cannabis banner ("Dutch Love"). Under the Lightbox Agreement, SNDL will acquire from Lightbox the rights to four Dutch Love stores and the rights to use certain Dutch Love related intellectual property for total consideration of \$7.8 million. The

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consideration is comprised of i) \$1.5 million cash; ii) the cancellation of the \$3.0 million debt owed by Lightbox to SNDL; and iii) \$3.3 million payable in common shares of SNDL.

The transaction is expected to be completed in the context of Lightbox's proceedings under the CCAA from the Supreme Court of British Columbia (the "BC Court"). On December 2, 2022, the BC Court granted an order that approved a sale and investment solicitation process ("SISP") in respect of the assets, undertakings and properties of Lightbox, and the Agreement is the result of the SISP process.

The transaction is anticipated to close by the end of May 2023.