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2024

Letter to Shareholders

Dear Shareholders,

SNDL Inc. (the "Company" or "SNDL") has released its full year and fourth quarter 2023 results, marking significant achievements such as record net revenue, record gross profit and the realization of free cash flow in the third and fourth quarters of the year. We began 2023 posting first quarter year-over-year revenue growth of nearly 1000%. The strides made this past year, focusing on internal efficiencies and fortifying our asset base, stand in stark contrast to the early challenges of 2020. Upon my arrival in the first quarter of 2020, we posted negative gross profit of $5 million. In the fourth quarter of 2023, we achieved gross profit of more than $57 million, signifying an increase of 1,240% since my first quarter with the Company.

Having completed my fourth year as SNDL's CEO, I appreciate this chance to reflect on the Company's remarkable transformation and share my insights on the regulated products industry and Canadian cannabis, which has achieved over $5 billion in total annual revenue, a significant accomplishment in just over five years.

> "It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat."
>
> **Theodore Roosevelt, "Citizen in a Republic", Paris 1910**

*All amounts are in Canadian dollars, unless otherwise stated. For forward-looking information disclaimers and non-IFRS measures, please see page 11 of the Shareholder Letter. Please refer to SNDL's audited consolidated financial statements and the notes thereto for the years ended December 31, 2023 and December 31, 2022, and the accompanying Management's Discussion and Analysis ("MD&A") for more information.

This excerpt from Roosevelt's speech eloquently conveys the essence of the people at the centre of SNDL: driven leaders who persevere, seek constant improvement, and engage in challenging endeavours despite the potential for failure. It celebrates the vigour of those who dare for greatness, contrasting them with the inaction of critics and bystanders. This quote reflects the spirit of the Company we are building and is symbolic of the industry in which we operate.

SNDL has navigated the tumultuous landscape of the regulated products industry with determination and strategic foresight. Our journey has been marked by a commitment to innovation while setting new records for financial and operational performance.

BUILDING STRENGTH AND AGILITY

ADAPTATION: THE VALENS INFUSION

Acquisitions have been key to the diversification of our business and the construction of a vertically integrated cannabis model, enhancing our resilience and capabilities in an industry plagued by excessive taxation and limited visibility. The acquisition of The Valens Company Inc. ("Valens") in January 2023, stands out as a pivotal move for our Canadian upstream business. The acquisition delivered broad manufacturing capabilities across all key cannabis product segments, setting the stage for SNDL's realistic objective to become one of Canada's most relied upon low-cost, high-quality producers. The integration of Valens' operations with SNDL's existing infrastructure has created synergies, reduced costs, and streamlined our operations through facility consolidation.

We are intensely focused on quality and aim to lead innovation in key categories while divesting from high-cost cultivation and production. The acquisition of Valens not only expanded SNDL's operational capabilities but also unlocked significant new market opportunities, particularly in the business-to-business ("B2B") and international arenas.

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A LEAGUE OF OUR OWN

> "Not finance. Not strategy. Not technology. It is teamwork that remains the ultimate competitive advantage, both because it is so powerful and so rare."
>
> **Patrick Lencioni, The Five Dysfunctions of a Team: A Leadership Fable**

The execution of our ambitious strategy and the optionality of our platform has turned SNDL into a beacon for top-tier talent. I am excited by our recent additions and humbled by the opportunity to serve our consumers and shareholders alongside them.

Crafting Success in Cannabis: In January, we appointed Tyler Robson as our President of Cannabis. Tyler, who established Valens in Kelowna, B.C., in 2014, led the company as its CEO and Chairman for nearly a decade before its acquisition by SNDL. With a background as a competitive athlete, Tyler comes to every table with a service-oriented mindset, constantly seeking solutions and refusing to be outworked. Valens took a contrarian approach relative to other competitors as cannabis became federally legal in Canada. In an exuberant new market with lofty valuations where investors focused on measures such as funded cultivation capacity, Valens did not fit in. Instead of building monster cultivation facilities, Valens leveraged procurement opportunities and developed leading extraction, processing, and manufacturing capabilities. When I joined SNDL, I inherited the largest pure indoor cultivation and processing facility in Canada. I lived through the challenges posed by unrelenting over-licensing, oversupply and stubborn fixed costs that reduced our competitiveness. The opportunity to pivot into procurement and take advantage of a market where biomass was trading below the marginal cost of production drove me to pursue Tyler and Valens for almost two years prior to completing our transaction. In 2023, Tyler led the transformation of our Cannabis Operations segment by rationalizing SNDL's manufacturing and production footprint and improving operational efficiencies, setting the stage for continued improvement into 2024.

Foundational Finance: In July, Alberto Paredero was named CFO of SNDL. Alberto recently served as the North American CFO of Mondelez International, Inc., following leadership roles at Novartis, Newell Brands Inc., and Procter & Gamble Company. Alberto's experience is cutting-edge in every sense of the word, having worked with some of the best CPG and financial professionals on the planet. He has deep experience in rigorous performance measurement, the automation of functions, and optimizing labour costs. In his first eight months, Alberto has had a strong impact on SNDL, including improving the speed of our financial reporting processes and redesigning our management business review cycle to drive better accountability with our teams. He has also worked to build critical trust with our leaders as we seek to improve discipline and decision making in order to become a top global distributor of regulated products. Our work isn't done, but I expect that the continued expansion of our finance team under Alberto's leadership will improve our organizational discipline and benefit all stakeholders.

Tech Transformation: Looking ahead, we are actively recruiting a new Chief Information and Digital Officer. We have a tremendous opportunity to elevate our performance, leveraging technology, e-commerce, and loyalty programs to offer unparalleled convenience and value to consumers.

DATA: THE MONETIZATION OF CONSUMER INSIGHTS

In 2023, SNDL expanded its proprietary data licensing programs, mobilizing insights from over 14 million transactions in liquor retail and nearly 10 million transactions from cannabis retail annually. These programs were one of the biggest drivers of improved operational cash flow in 2023 and are expected to increase cash flows in the future.

The launch of our Liquor Retail data program in the fourth quarter of 2023 marks a strategic initiative to leverage lessons from the cannabis industry to enhance our Liquor Segment. This program is expected to generate revenue in the first quarter of 2024, with plans to scale through the balance of the year as we assist suppliers with assortment strategies and operational efficiencies. This approach applies best practices from across industries, prioritizing data to enhance the end-to-end consumer experience and improve business outcomes.

We're further positioning ourselves as a forward-thinking Company by deploying innovative data solutions across our business segments. We're committed to leveraging data not just to fuel growth and improve the consumer experience but to build a stronger, more agile business model.

L'AMERICAIN

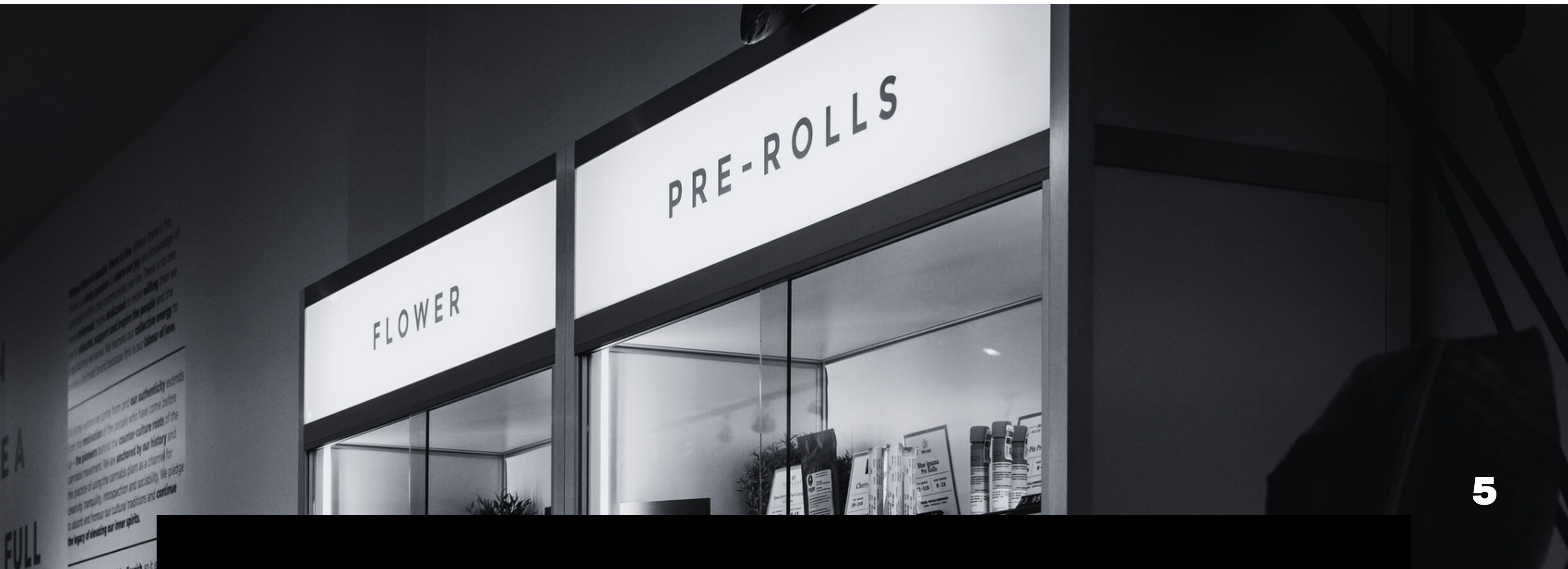
In the current economic landscape marked by high interest rates and inflation, the global cannabis industry continues to grapple with an extremely high cost of capital and a general lack of capital availability. SNDL's current equity pricing reflects this dynamic, trading at a discount to its current book value. Like many companies in the cannabis industry, SNDL has minimal institutional investor support, with the exception of small ETFs and sophisticated high-frequency trading firms working to arbitrage retail holders, down to margins as precise as four decimal places, or 1/100th of a penny. There is room for optimism as this dynamic is likely to improve over time. Our unlevered and cash-rich balance sheet provides us with the opportunity to get on the 'right side of the trade' when it comes to taking advantage of distressed opportunities and our own discounted shares. SNDL repositioned its investment portfolio in 2023 to capture the benefits of capital recycling and reduced earnings volatility.

In the third quarter, SNDL's joint venture SunStream Bancorp Inc. ("SunStream") sponsored the launch of SunStream USA group of companies ("SunStream USA Group"). This new entity is designed to hold the post-reorganized equity of Skymint and Parallel, which include cannabis licenses in Florida, Michigan, Massachusetts, and Texas, without voting or operational control, in order for SNDL to maintain its Nasdaq listing until further regulatory reform allows for the consolidation of these exposures. The establishment of SunStream USA Group represents a compliant, arms-length expansion, ensuring that SNDL does not engage in plant-touching activities while participating in a multi-state cannabis platform. The restructurings of Skymint and Parallel aim to simplify highly complex capital structures, eliminate certain material liabilities, and improve competitive positioning. The closing of these restructured transactions is anticipated to provide SunStream USA Group with the optionality to draw third-party investors, engage in industry consolidation through mergers and acquisitions, and gain critical consumer insights. While many Canadian operators make promotional statements regarding future U.S. dominance, SNDL is the only Canadian licensed producer with cannabis enterprise exposure in the U.S. at this scale.

The U.S. cannabis market is critical to SNDL's strategic growth, with the SunStream USA Group serving as a testament to our commitment to the U.S. market. Amid short-term investors' impatience and insatiable appetite for vapid, promotional press releases, it is essential to appreciate the true nature of the ongoing restructurings, and the unique opportunities in play. Even amongst the most seasoned restructuring experts, one would be hard-pressed to find anyone with relevant experience navigating a federally illegal business through a state-level receivership or foreclosure process. The lack of federal legality for cannabis means that distressed companies cannot avail themselves of U.S. Federal Bankruptcy law – a judicial doctrine and system dating back to the 1800s as a means of dealing with distressed assets. The lack of a federal framework for distressed cannabis companies in the U.S. results in frequent delays and additional costs. The SunStream team is pioneering new territory, akin to explorers using machetes to chart a path through the jungle of the emerging market that is U.S. cannabis. The challenges we've encountered during these restructurings bear a striking resemblance to the 80's classic movie "Raiders of the Lost Ark", where the protagonist, Indiana Jones, faced constant peril and insurmountable odds, dodging poison darts, rolling boulders and notorious villains. We have faced litigation with billionaires, crushing debt loads, fantastical storytellers, and would-be thieves who were threatened with contempt of court if they did not return capital – which they did.

We are confident that the SunStream USA Group will be instrumental in the path to value creation for our stakeholders. Not only are we seeing improved performance in the case of related businesses currently going through the restructurings, but the additional performing loans held by SunStream will continue to be a source of cash as the principal of these loans is amortized back to SNDL. We look forward to updating investors on our progress in the coming months.

"While many Canadian operators make promotional statements regarding future U.S. dominance, SNDL is the only Canadian licensed producer with cannabis enterprise exposure in the U.S. at this scale."



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EMBRACING UNCERTAINTY

DEEP VALUE: HIDDEN IN PLAIN SIGHT

SNDL distinguishes itself with solid achievements amidst the volatile cannabis market, where share prices often don't reflect Company fundamentals. With revenue increasing in seven of the last eight quarters[1] and a three-year compounded annual growth rate of 123%, SNDL not only leads in the cannabis space but also outpaces average S&P 500 company growth.

SNDL has a debt-free balance sheet and a current market capitalization of approximately $530 million. This equity valuation stands in contrast to our substantial financial assets as of December 31, 2023, including approximately $195 million in cash and a credit portfolio with a $572 million current fair value, totalling $767 million, and liquor and cannabis inventories valued at approximately $129 million. After considering the value of these assets, investors might reevaluate SNDL's well-established brands and its six retail banners operating in the regulated products sector, which saw net revenue increase by 28% versus the prior year to a record $909 million. I believe that the Company's intrinsic value is materially higher than its current market valuation. This disparity suggests that investors purchasing shares today could potentially be acquiring significant assets at no additional cost, essentially receiving the operational business and its future growth prospects "for free" on an implied basis.

The second half of 2023 marked SNDL's first ever period of positive free cash flow generation. We are focused on reporting unadjusted figures and sustainable operating income and believe that our current share price does not match our transformative achievements or the quality of earnings that we intend to deliver in the future.

The downside of our current predicament is that it becomes very difficult to use our equity as currency to affect industry consolidation or to raise equity capital on an accretive basis. We believe that doing so would be highly dilutive to the current intrinsic value of our shares. If the valuation continues to languish despite our demonstrable improvement in financial performance and the opportunity that we see for SNDL in regulated products, our board of directors may entertain a number of alternatives to unlock value. I firmly believe that we are headed for one of two outcomes: either our management team will close the current valuation gap, or market forces will close it for us.

[1] Please refer to SNDL's audited consolidated financial statements and the notes thereto for the years ended December 31, 2023 and December 31, 2022, and the accompanying Management's Discussion and Analysis ("MD&A") for more information.

LOSING MY RELIGION

When I first entered the legal cannabis industry four years ago, our Company's core value proposition was anchored by the development of the largest pure indoor cultivation and processing facility in Canada. I dedicated considerable time to engaging in discussions with cultivators from across North America, many of whom brought their expertise from the illicit market, while others came from traditional agricultural backgrounds. At the same time, I observed the strategies of competitors as they expanded their cultivation capacities to meet perceived consumer demand.

A key principle frequently emphasized was the superiority of indoor cultivation, which seemed logical given the advanced control over environmental factors such as light, temperature, humidity, and airflow. Initially, SNDL aimed to offer a premium quality product that would command high prices and generate attractive margins. What could go wrong? As it turned out, everything.

As the Canadian market developed, SNDL's founders couldn't have easily anticipated future power price dynamics in the province of Alberta nor the size of the premium product market in Canada with any degree of certainty. These blind spots almost destroyed our Company and I believe that the lessons learned will impact various operators in the future as cannabis markets mature.

The largest costs in upstream Cannabis operations are people, power, and packaging, with power costs being a crucial variable that affects the competitiveness of biomass production costs. We have seen a quiet trend in Canada's national market, where indoor cultivation facilities with exposure to higher-cost power jurisdictions have closed, in many cases permanently. According to Deloitte research,[2] the electric power industry in the U.S. anticipates a potential tripling of electricity demand in the coming decades. With strong power demand, an ongoing inflation cycle and rates normalizing after a prolonged virtual zero-rate environment, it is unlikely that North American consumers and operators will see a meaningful reduction in power prices.

The assumption that indoor cultivation yields superior results compared to outdoor or glasshouse environments fails to consider consumer preferences, the evolution of cannabis product innovation, or improvements in these alternative cultivation methods. This is not to say that all indoor cultivation is dead or doomed, (we have a great team managing a well-designed indoor facility in New Brunswick that sits in a low-cost power jurisdiction), but I am convinced that it does not represent the bulk of the industry's future. In an industry under pressure from excess taxation and regulation, innovation is a matter of survival.

> "These blind spots almost destroyed our Company and I believe that the lessons learned will impact various operators in the future as cannabis markets mature."

We have seen massive improvements in the cultivation outcomes from scale glasshouse operators. The continuous improvement in standard operating procedures and the aggressive management of genetics has resulted in undeniably competitive potency, terpene content and other specifications relative to indoor cultivation.

The key question is, even if glasshouse growers concede that conventional indoor specifications are 2-300 basis points better, will consumers pay premiums of 100% or more for this benefit?

I believe that the answer is, absolutely not.

Closed markets with limited licenses that are not subject to strong competition will evade this dynamic for some time and experience higher pricing and margins. As these markets open to greater competition and interstate or international commerce in the future, higher-cost production facilities will be exposed, and their owners will suffer from a structural lack of competitiveness. This does not portend imminent business failure but should be a call to arms to future proof business models in preparation to abandon what could be material sunk costs.

This shift reflects our early recognition of market trends and our corresponding operational adjustments. We've adapted to these changes and used our scale and industry connections to gain a procurement advantage. This strategic pivot is not merely a response to market pressures but a deliberate move to position ourselves ahead of the curve. This mindset ensures our resilience and continued growth, setting us apart as a leader in the rapidly evolving cannabis industry.

[2]Deloitte Research Center for Energy & Industrials, 2024 power and utilities industry outlook.

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REGULATORY ROULETTE

Understanding the nuances of the Canadian cannabis market is critical for investors to effectively navigate the landscape. Unlike some other markets, Canada's approach to cannabis involves a complex interplay between federal and provincial/territorial regulations, each with its own set of rules and frameworks that govern the cannabis industry. This layered regulatory environment can significantly impact market dynamics, distribution channels, and consumer access.

Reflecting on the journey of Canadian cannabis legalization, the original goals were noble and clear: enhance public safety, dismantle the illicit market, and establish a regulated environment where quality and innovation could thrive. The vision was inclusive, aiming to accommodate businesses of various sizes under the umbrella of federal regulation, ensuring a diverse and vibrant market.

The reality is that this promise has yet to be fulfilled. The landscape is now dominated by a regulatory paradox where provincial and territorial overreach favour crown monopolies over the fabric of a diverse market ecosystem comprised of small, medium, and large enterprises. This dynamic raises questions about the accessibility of the market and probabilities of success for businesses that adhere to the rules yet find themselves navigating an increasingly complex landscape.

Consider the irony in B.C., a province that arguably has Canada's richest cannabis heritage. In B.C., an entity can own up to eight retail stores, while the B.C. Cannabis Store ("BCCS") crown corporation operates 40 stores. Even though the store cap was established to protect smaller independent businesses, the results are the opposite. The related policy hinders capital investment, reduces consumer benefit from competition, and disincentivizes entrepreneurship by reducing the buyer universe and, ultimately, the value of individual licenses. The small businesses that the province intended to protect cannot actually compete against the dominance of BCCS. We expect common sense reforms to impact these policies within the next 12-18 months.

In a highly competitive environment with limited access to affordable capital, inconsistent and absent enforcement has resulted in the Canadian federal government becoming the largest individual creditor to the domestic cannabis industry. Smaller companies opting to not remit their taxes have gone largely unchecked due to special treatment by the Canada Revenue Agency ("CRA"). These companies are essentially accessing low-cost capital that should otherwise be unavailable, allowing them to drive down cannabis prices to unsustainable levels. The continued operation of cannabis companies with outstanding tax arrears destabilizes the competitive landscape, contributing to price compression and further incentivizing noncompliance. The CRA has recently announced that they will pursue repayment of nearly $300 million in unpaid taxes from over 259 cannabis companies, a number that represents a staggering 72% increase in unpaid taxes from the prior year.[3] While this will create a more equitable playing field, it will also surely drive many companies into insolvency proceedings.

[3] Lamers, M. (2024, March 4). Canada's unpaid cannabis taxes soar to almost CA$300 million. MJBizDaily. Source.

The inequity in the treatment of cannabis taxation relative to other regulated products is wholly unsustainable. 2023 Canadian cannabis excise taxes surpassed beer and wine excise tax revenue[4] on an aggregate basis, despite beer and wine sales generating five times the revenue. That's right – the $26 billion Canadian alcohol industry[5] has incurred less tax than the $5 billion cannabis sector. It's no wonder why so many cannabis enterprises have suffered capital losses and opted to defer tax payments. In hindsight, many were destined for failure since inception.

The cannabis taxation system is in desperate need of reform and appropriate enforcement. One can't help but consider the financial benefits that the appropriate management of our sector could have on Canadian deficits, community support systems, education, healthcare, and safety. Tax compliance in the cannabis industry is certainly a fiscal issue, but also a matter of fairness and equity.

Looking back on the first five years of cannabis legalization in Canada, we have clearly missed the mark. The only winners are large crown monopolies that function as hybrid regulators, wholesalers, distributors, retailers, and sometimes sub-par third-party logistics partners. Canada remains a net zero profit environment when you look across aggregate commercial cannabis business models. I believe that this will change in the near term, but only due to regulatory reform, government enforcement, and the relentless determination of operators who will ultimately reduce operating costs to levels thought impossible when cannabis became federally legal over five years ago.

SNDL advocates for regulatory reforms that foster a fair, competitive landscape crucial for the industry's sustainability. Our engagement with regulators is driven by the pursuit of equitable market conditions that benefit all stakeholders. As industry leaders, we are actively collaborating with regulators to address these challenges, advocating for reforms that ensure fairness and competitiveness. We're seeing positive shifts, such as the enforcement of excise tax collections, and the review of product regulations and retail practices, but more work is required. Our team's commitment to regulatory engagement and rational reform is a reflection of our compliance and innovation culture and reinforces our leadership role in driving the industry towards a more sustainable future.

> "One can't help but consider the financial benefits that the appropriate management of our sector could have on Canadian deficits, community support systems, education, healthcare, and safety."

[4] Lamers, M. (2024, February 28). Canadian federal cannabis tax revenue outpaces beer, wine. MJBizDaily. Source.
[5] Statistics Canada, Alcohol and cannabis sales in Canada, April 2022 to March 2023.

WE ARE NOT LEAVING THE ARENA

Reflecting on SNDL's path, our journey is marked by bold ambitions and precise execution. Our recent endeavours highlight our dedication to leading in the regulated products sector. We are not merely observers; we are actively shaping the landscape. With a firm grasp on data insights and proven decisiveness, SNDL's journey is characterized by audacity, resilience, and the relentless pursuit of excellence.

To our shareholders, your support is critical to our progress. Together, we are reshaping the cannabis landscape, guided by a commitment to innovation and value creation. We remain focused on our mission and confident in our strategic direction to create sustainable shareholder value.

The long-term vision and success we are striving towards remind me of a great quote from the recently departed Brian Mulroney, as he reflected on his leadership style during his days as the Prime Minister of Canada:

> "I actually did govern not for good headlines in ten days but for a better Canada in ten years. I paid the price in media hostility and public disapproval. But I did so knowingly and willingly. Leadership is about courage, strength, and resolve often in the face of overwhelming criticism and adversity; it is about taking positions you believe to be in Canada's long-term interests and sticking to them."
>
> **Brian Mulroney, "Memoirs"**

SNDL understands the importance of long-term vision and execution over immediate gratification and comfort.

In the challenging landscape of the cannabis industry, marked by regulatory complexities, excess supply and market volatility, SNDL has maintained a focus on capital stewardship and adaptation.

Five years into Canada's legalization of cannabis, it's time to evaluate which companies have navigated these waters with strategic acumen and resilience. Who is setting the stage for long-term viability and leadership? In a sector where uncertainty and high capital costs prevail, who has effectively leveraged mergers and acquisitions for growth?

We believe SNDL stands out in this assessment, demonstrating strategic foresight and a strong position among its peers. Our story is one of deliberate action through industry challenges, and we are guided by a commitment to consumer delight and value creation.

Disclaimer

Forward-Looking Information: Certain statements contained in this letter may constitute forward-looking information and statements. All statements in this presentation, other than statements of historical fact, that address events or developments concerning SNDL Inc. ("SNDL" or the "Company") that SNDL expects to occur are "forward-looking information and statements". Forward-looking information and statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe", "budgeted", "scheduled" and "forecasts", and similar expressions and variations (including negative variations). Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Such risks and uncertainties may be discussed in the Company's materials most recently filed with the Canadian and U.S. securities regulatory authorities. All of the forward-looking information and statements contained in this letter are qualified by these cautionary statements. The reader of this letter is cautioned not to place undue reliance on any forward-looking information and statements. The Company is under no obligation, and expressly disclaims any intention or obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable law. For more information in respect of such forward-looking formation and statements, please refer to SNDL's annual information form for the year ended December 31, 2023 as well as SNDL's audited consolidated financial statements and the notes thereto for the years ended December 31, 2023 and December 31, 2022, and the accompanying management's discussion and analysis, including (in each case, as applicable) the sections thereof entitled "Forward-Looking Information".

Non-IFRS Measures: Certain financial measures in this letter, including adjusted EBITDA and free cash flow, are non-IFRS financial measures within the meaning of applicable securities laws. These terms are not defined by IFRS and, therefore, may not be comparable to similar measures provided by other companies. These non-IFRS financial measures should not be considered in isolation or as an alternative for measures of performance prepared in accordance with IFRS. For more information in respect of these non-IFRS financial measures, please refer to SNDL's audited consolidated financial statements and the notes thereto for the years ended December 31, 2023 and December 31, 2022, and the accompanying management's discussion and analysis, including the sections thereof entitled "Specified Financial Measures".