

To: Former holders and beneficial owners (“Inner Spirit Shareholders”) of common shares of Inner Spirit Holdings Ltd. (“Inner Spirit”) who exchanged their common shares of Inner Spirit with Sundial Growers Inc. (“Sundial”) for common shares of Sundial (“Sundial Shares”) and cash consideration, by way of a plan of arrangement among Sundial and Inner Spirit that has become effective (the “Arrangement”).

TAX INSTRUCTION LETTER

This tax instruction letter is provided in connection with the Arrangement pursuant to which Sundial acquired all the common shares of Inner Spirit (“**Inner Spirit Shares**”).

This tax instruction letter is for use by Inner Spirit Shareholders who are Eligible Holders (as defined below) and who wish to obtain a full or partial tax-deferred “rollover” as a result of the Arrangement by making a tax election with Sundial under subsection 85(1) of the *Income Tax Act* (Canada) (the “**Tax Act**”) or, in the case of a Inner Spirit Shareholder that is a partnership, under subsection 85(2) of the Tax Act (in either case, a “**Joint Tax Election**”).

Inner Spirit Shareholders who choose not to make a Joint Tax Election will generally realize a capital gain (or capital loss) as a result of the Arrangement. See *Disposition of Inner Spirit Shares for a Combination of Cash and Sundial Shares – Joint Tax Election Not Made in the Circular of Sundial and Inner Spirit dated June 14, 2021 (the “Circular”)*.

A copy of Form T2057 is included with this tax instruction letter. In the event that the Inner Spirit Shares are held as partnership property, please obtain Form T2058. Copies of the relevant Canadian federal tax election forms, including Forms T2057 and T2058, may be obtained by contacting the CRA or from their website (<http://www.cra-arc.gc.ca/>).

Sundial will make a Joint Tax Election only with a Inner Spirit Shareholder who is an “**Eligible Holder**” and who:

- has properly completed and executed the required tax election forms (two copies of CRA Form T2058 for partnerships or two copies of CRA Form T2057 for all other Inner Spirit Shareholders, and two copies of any applicable provincial or territorial election forms (collectively, the “**Tax Election Forms**”)); and
- has ensured the receipt of the completed Tax Election Forms by Sundial on or before **October 18, 2021**, at:

**Sundial Growers Inc.
Suite 300, 919 – 11th Avenue SW
Calgary, AB
T2R 1P3
Attention: Jim Keough
Chief Financial Officer**

An Eligible Holder was a beneficial owner of Inner Spirit Shares immediately prior to the effective time of the Arrangement (other than a “Dissenting Shareholder” as defined in the Circular) who is a Resident Holder (as defined in the Circular) that is not: (i) exempt from tax under Part I of the Tax Act; or (ii) a partnership, any member of which is not a resident of Canada for purposes of the Tax Act or is exempt from tax under Part I of the Tax Act. **A person that is not resident in Canada for Canadian tax**

purposes (e.g., a Inner Spirit Shareholder resident in the United States or another country other than Canada) or that is exempt from tax in Canada (e.g., a registered account such as an RRSP) is not an Eligible Holder.

Sundial will not make a Joint Tax Election with anyone who is not an Eligible Holder.

These instructions are of a general nature only and are not intended to be (nor should they be construed to be) legal or tax advice to any particular Inner Spirit Shareholder concerning the Joint Tax Election. Further, apart from providing these materials to Inner Spirit Shareholders for their convenience, neither Sundial nor Inner Spirit will provide Inner Spirit Shareholders with any advice on making the Joint Tax Election. Accordingly, Inner Spirit Shareholders should consult with their own tax advisors for specific advice in respect of whether to make a Joint Tax Election, making the Joint Tax Election and complying with the Joint Tax Election procedure having regard to their own particular circumstances.

Unless otherwise indicated, all references to “\$” in this tax instruction letter refer to Canadian dollars and all reference herein to “US\$” in this tax instruction letter refer to U.S. dollars.

Please review the enclosed form very carefully and consult your tax advisor as to their proper completion and delivery and any filing deadlines. You are also advised to review Information Circular, 76-19R3 and Interpretation Bulletin, IT-291R3 issued by the CRA for information in respect of the Joint Tax Election.

In order to achieve a deferral of tax in some provinces or territories similar to that resulting from the Joint Tax Election, it may be necessary to file a separate copy of the Joint Tax Election or a separate provincial or territorial tax election analogous to the Joint Tax Election with the taxing authority of such province or territory. Sundial will also make such a provincial or territorial tax election with an Eligible Holder under the same conditions that it is willing to make the Joint Tax Election. Inner Spirit Shareholders are entirely responsible for determining whether any such separate federal, provincial or territorial election is applicable and appropriate in their circumstances and (if so) obtaining, completing and forwarding the related forms to Sundial (at the address listed above) for execution by Sundial.

Sundial will assume that any representative that signs the Joint Tax Election forms on behalf of a corporation, trust or estate has been duly authorized to do so, and will not take any action to verify the validity of any such authorization. Former Inner Spirit Shareholders that are corporations, trusts or estates should consult their own legal advisors in determining whether such authorization has been properly given.

In order to make a Joint Tax Election, two copies of the applicable Joint Tax Election forms must be signed and properly completed with the necessary information, including the number of Inner Spirit Shares transferred, the consideration received therefor and the applicable elected amounts for the purposes of such elections and must be received by Sundial at the address stated above no later than October 18, 2021. Sundial will execute all properly completed Joint Tax Election forms submitted to it by an Eligible Holder and will return such Joint Tax Election forms to the Eligible Holder for filing with the appropriate tax authorities. It is the sole responsibility of the Eligible Holder who wishes to take advantage of the Joint Tax Election to attend to the proper completion and filing of the forms required by the Tax Act in that regard.

Sundial is not required to sign Joint Tax Election forms received after October 18, 2021, and thus any Eligible Holder who does not ensure that Sundial has received the completed Joint Tax Election forms,

each containing an original signature of the Eligible Holder, on or before October 18, 2021, may not be able to benefit from the elections.

Procedure for Completing Prescribed Form T2057

The following section illustrates the information required to be provided by an Eligible Holder completing Form T2057. Please consult your advisor on the completion of any additional prescribed forms (such as Form T2058 and any applicable provincial or territorial tax forms). **Do not write the required information on this letter of instructions. The information should be typed or legibly printed on the prescribed forms.**

Page 1 of Form T2057

Complete the information in this first box for the Eligible Holder making the election:

Taxpayer's name (transferor)						Social insurance, trust account or business number					
Address						Postal code					
Tax year of the taxpayer						Tax services office					
Start			Year	Month	Day	End			Year	Month	Day

The taxation year for individuals is January 1, 2021 to December 31, 2021.

Complete the information in this box if the Inner Spirit Shares were held in joint ownership; otherwise enter "N/A":

Name of co-owner(s), if any, (if more than one, attach schedule giving similar details)		Social insurance number	
Address		Postal code	Tax services office

Sundial will complete the next section:

Corporation's name (transferee)		Business Number	
Sundial Growers Inc.		●	
Address		Postal Code	Tax services office
Suite 200, 919 – 11 Avenue S.W., Calgary , Alberta		T2R 1P3	Southern Alberta
Taxation year of the corporation			
●			

Complete the next section, by filling in your name and telephone number or, if appropriate, the name and telephone number of your tax advisor:

Name of the contact person	Telephone number
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The last section of page 1 of Form T2057 relates to late filed elections and Eligible Holders whose elections will be filed late.

Page 2 of Form T2057

Sundial will complete the answers to the first five questions as follows:

- 1. Is there a written agreement relating to this transfer?..... Yes No
- 2. Does a price adjustment clause apply to any of the properties? (See Income Tax Folio S4-F3-C1 for details.)..... Yes No
- 3. Do any persons other than the taxpayer own or control directly or indirectly any shares of any class of the transferee?..... Yes No
- 4. Does a non-arm's length rollover exist between 2 or more corporations? Yes N/A No

Eligible Holders should answer the following questions based on their particular circumstances:

- 5. Is the taxpayer a non-resident of Canada?..... Yes No
- 6. Are any of the properties transferred capital properties?..... Yes No

.....
Whether the Inner Spirit Shares are capital properties to a particular Eligible Holder is a question of fact and law that must be determined by each Eligible Holder based on a consideration of all the relevant facts and circumstances.

If Yes,

- (a) have they been owned continuously since Valuation Day (V-Day is defined in section 24 of the *Income Tax Application Rules*)?..... Yes No
- (b) have they been acquired after V-Day in a transaction considered not to be at arm's length?..... Yes No

Eligible Holders who hold their Inner Spirit Shares as capital property and acquired their Inner Spirit Shares in an arm's length transaction should check "No" to question 6(c) below.

- (c) since V-Day, has the taxpayer or any person from whom shares were acquired in a non-arm's length transaction received any subsection 83(1) dividends for transferred shares? (If yes, attach a schedule, provide details of amounts and dates received.)..... Yes No
- 7. Is the agreed amount of any of the transferred properties based on an estimate of FMV on V-Day?..... Yes No

If yes to question 7, does a formal documented V-Day value report exist?..... Yes No
- 8. Has an election under subsection 26(7) of the *Income Tax Act Application Rules* (Form T2076) been filed by or on behalf of the taxpayer?..... Yes No

The next section may be left blank, as follows:

Where shares of the capital stock of a private corporation are included in the property disposed of, provide the following:	
Corporation's name	
Business number R C	Paid-up capital of shares transferred

Eligible Holders must complete the information in the two blank boxes in the next section, as follows:

Number of shares transferor received	Class of shares	Redemption value per share	Paid-up capital	Voting or non-voting	Are shares redeemable at the holder's option?
	Common Shares	N/A	Determined under subsection 85(2.1) of the Tax Act	Voting	<input type="checkbox"/> Yes <input type="checkbox"/> No

↓
 Enter the number you get in computing (7) on the next page.

Page 3 of Form T2057

Enter "2021-07-20", being the date on which Sundial acquired the Inner Spirit Shares in the box "Date of sale or transfer of all properties listed below" following section:

Information on the eligible property disposed of and consideration received							Protected B when completed					
Date of sale or transfer of all properties listed below:	Year			Month			Day			Note: For properties sold or transferred on different dates, use a separate Form T2057.		
	Property disposed of						B			Consideration received		
	Description	Elected amount limits (see note 1)		B Agreed amount (cannot be zero)	Amount to be reported B - A (if greater than 0, see note 5)	Non-share		Share	Fair market value of total consideration			
Fair market value		A	Description			Number and class						
Capital property excluding depreciable property	(brief legal)		(see note 2)									
Depreciable property	(description and prescribed class)		(see note 3)									
Eligible capital property	(kind)		(see note 4)									
Inventory excluding real property	(kind)		(cost amount)									
Resource property	(brief legal)		nil									
Security or debt obligation property	(description)		(cost amount)									
Specified Debt Obligation (for financial institutions only)			(cost amount)									
Capital property that is real property owned by a non-resident person	(description)											
AgriInvest fund no. 2 (see note 6)			(cost amount)									

Note 1: Read Interpretation Bulletin IT-291 for more information on eligible property and an explanation of the limits.
 Note 2: Adjusted cost base (subject to adjustment under section 53).
 Note 3: The lesser of undepreciated capital cost of all property of the class and the cost of the property.
 Note 4: The lesser of 4/3 of the cumulative eligible capital and the cost of the property.
 Note 5: This amount is to be reported either as a capital gain or as income, whichever applies. Also, in the case of depreciable property and eligible capital property, a portion of the amount may have to be reported as a capital gain while another portion of the amount may have to be reported as income.
 Note 6: Contributions made in a tax year ending after 2007, and amounts earned on those contributions, are only eligible if that property is owned by an individual.

Complete the information in this section according to the instructions following:

Property Disposed of			Agreed Amount	Amount to be reported B-A if > 0 (see note 4)	Consideration Received		
Elected Amount Limits		B			Non-share	Share	Fair Market Value
Description (Brief Legal)	Fair Market Value		A	Description	Number and Class		
(1)	\$ (2)	\$ (3)	\$ (4)	\$ (5)	\$ (6)	\$ (7)	\$ (8)
Common Shares of Inner Spirit Holdings Ltd.					Cash	Common Shares of Sundial Growers Inc.	

Capital
Property
Excluding
Depreciable
Property

Complete this section as follows:

- (1) Enter the number of Inner Spirit Shares sold and their description as "Common Shares of Inner Spirit Holdings Ltd.".
- (2) Enter the total fair market value of Inner Spirit Shares sold, at the time of sale. The fair market value of the Inner Spirit Shares must be determined on a reasonable basis. There is no specific method prescribed by the CRA for determining the fair market value of a share, nor is there any clear published guidance in this respect. Sundial has determined, based on the facts and circumstances of the Arrangement, that it is appropriate for Canadian federal and provincial tax purposes to value the Sundial Shares using the 10-day volume-weighted average price of Sundial Shares on the Nasdaq Capital Market on July 20, 2021, being \$1.0872 per Sundial Share (which amount is the Canadian dollar equivalent of US\$0.8541 per Sundial Share based on the Bank of Canada's conversion rate on July 20, 2021). Sundial will only execute those Tax Election Forms which use this value. Although Sundial believes the above value is reasonable, it makes no explicit representation as to its accuracy and notes that the value is not binding on any party (including the CRA) and has not been pre-approved by the CRA.
- (3) Enter the adjusted cost base (or cost amount in the case of inventory) of the Inner Spirit Shares.
- (4) Enter the agreed amount. See the rules described below with respect to calculation of the agreed amount.
- (5) Enter the result of B – A, this is the amount of your capital gain.
- (6) Enter the amount of cash consideration you received under the Arrangement. The amount of cash consideration you received is the number of Inner Spirit Shares you had (see (1) above), multiplied by \$0.30.
- (7) Enter the number of Sundial Shares you received under the Arrangement. The number of Sundial Shares you received is the number of Inner Spirit Shares you had (see (1) above), multiplied by the number 0.0835.
- (8) Enter the total fair market value, as at the effective date of the Arrangement, of the Sundial Shares received. The amount entered here should equal the amount entered in (2) above.

Rules with Respect to Calculation of Agreed Amount

Subject to the rules set out below, Eligible Holders who wish to avoid a capital gain must elect an *agreed amount* equal to the adjusted cost base of the Inner Spirit Shares (or cost amount, if the Inner Spirit Shares are inventory). Eligible Holders who wish to trigger a capital gain should select an *agreed amount* that is higher than the adjusted cost base. The *agreed amount* must be determined in accordance with the following rules:

- (1) The *agreed amount* may not be less than the cash consideration received by the Eligible Holder.
- (2) The *agreed amount* may not be less than the lesser of: (i) the adjusted cost base (or cost amount, if the Inner Spirit Shares are inventory) to the Eligible Holder of the Eligible Holder's Inner Spirit Shares sold, determined immediately before the time of the sale; and (ii) the fair market value of the Inner Spirit Shares at that time.
- (3) The *agreed amount* may not exceed the fair market value of the Inner Spirit Shares at the time of the sale.

Eligible Holders should consult their tax advisors regarding the selection of the agreed amount in respect of their Inner Spirit Shares.

The Eligible Holder must sign in the last box as indicated:

Election and certification		
The taxpayer and the corporation jointly elect under subsection 85(1) in respect of the property specified, and certify that the information given in this election and in any attached documents is correct and complete.		
_____ Signature of Transferor, Authorized Officer or Authorized Person*	and	_____ Signature of Authorized Officer of Transferee
* Attach a copy of the authorizing agreement.	↑	↓
_____		Date (yyyy-mm-dd)

Eligible Holder should sign here

Leave this space blank for the authorized signature of Sundial

Procedure for Completing of Form T2058 and/or any Applicable Provincial or Territorial Tax Forms

Eligible Holders completing Form T2058 and/or any applicable provincial or territorial tax forms (such as TP-518V or TP-529V) may refer to the instructions set out above, although the order of presentation of the information on the other forms may differ from that of Form T2057 and some of the required information may be different.



Election on Disposition of Property by a Taxpayer to a Taxable Canadian Corporation

- This form is used by a taxpayer and a taxable Canadian corporation to jointly elect under subsection 85(1) where the taxpayer has disposed of **eligible property** under subsection 85(1.1) to the corporation and the taxpayer receives as consideration shares of capital stock of the corporation.
- Unless otherwise indicated, all legislative references are to the *Income Tax Act*.
- Mail one copy of this election and related schedules (as specified), completed by the transferor, as follows:
 - to the tax centre of the transferor;
 - on or before the earliest date on which any party to the election has to file an income tax return for the tax year in which the transaction occurred (due date). This due date must consider any election under subsection 25(1) or 99(2); and
 - separately from any other return.

Do not use this area

When many transferors elect to transfer the same property (co-ownership) or many members of the same partnership elect to transfer their partnership interests, the elections will be processed together and should be filed:

- at the tax centre of the transferee;
- on or before the due date; and
- by a designated transferor to file all of the completed forms for each transferor, together with a list of all of the electing transferors. This list should contain the name, address and social insurance number, trust account number or business number of each transferor.

Find the address of the transferor's and transferee's tax centre at canada.ca/tax-centres.

Taxpayer's name (transferor)	Social insurance, trust account or business number
Address	Postal code
Tax year of the taxpayer <div style="display: flex; justify-content: space-between;"> Start Year Month Day End Year Month Day </div>	Tax services office

Name of co-owner(s), if any (if more than one, attach schedule giving similar details)	Social insurance number
Address	Postal code
	Tax services office

Corporation's name (transferee)	Business number
Address	Postal code
Tax year of the corporation <div style="display: flex; justify-content: space-between;"> Start Year Month Day End Year Month Day </div>	Tax services office
Name of the contact person	Telephone number

Penalty for late-filed and amended elections

An election that is filed after its due date is subject to a late-filing penalty. You can file Form T2057 within three years after its due date if you pay an estimate of the penalty at the time of filing. You can also amend or file Form T2057 after the three-year period, but, in addition to the payment of an estimated penalty amount, you must attach a written explanation justifying the changes or reasons for the delay for consideration by the minister.

Calculation of late-filing penalty:

Fair market value (FMV) of property transferred	_____
Agreed amount	_____
Subtotal (FMV minus agreed amount)	_____ A
Amount A _____ × ¼ × 1% × N * _____ =	_____ B
\$100 × N * _____ =	_____ C
Amount C cannot exceed \$8,000.	
Late-filing penalty (amount B or amount C, whichever is less)	_____
Amount enclosed	_____

Do not use this area

Make your cheque or money order payable to the Receiver General. On the back, write T2057, the transferor's name, and their social insurance, trust account or business number.

Unpaid amounts including late-filing penalties are subject to daily compound interest at a prescribed rate.

* N is the sum of each month or each part of a month in the period from the filing due date to the actual date filed.

Information required

On the following page, list, describe, and state the fair market value (FMV) of transferred properties. The description and FMV of the consideration received has to be shown opposite of the related property transferred. Where the transferred property is a partnership interest, attach a schedule of the calculation of the adjusted cost base. If there is not enough space on the form, attach schedules giving similar details. You have to designate the order of disposition of each depreciable property. The following material may be prepared in order to complete the form: a summary of the method of evaluating the FMV of each property transferred; schedules supporting this election; and documentation relating to the responses to the questions below. This material does not need to be filed with the election but must be kept in case we ask to see them at a later date.

1. Is there a written agreement relating to this transfer? Yes No
2. Does a price adjustment clause apply to any of the properties? (See Income Tax Folio S4-F3-C1 for details.) Yes No
3. Do any persons other than the taxpayer own or control directly or indirectly any shares of any class of the transferee? Yes No
4. Does a non-arm's length rollover exist between 2 or more corporations? Yes No
 If **yes** to question 4, have all or substantially all (90% or more) of all the properties of the corporation(s) been transferred to the transferee corporation? Yes No
5. Is the taxpayer a non-resident of Canada? Yes No
6. Are any of the properties transferred capital properties? Yes No
 If **yes**, a) have they been owned continuously since Valuation Day (V-Day is defined in section 24 of the *Income Tax Applications Rules*)? Yes No
 b) have they been acquired after V-Day in a transaction considered not to be at arm's length? Yes No
 c) since V-Day, has the taxpayer or any person from whom shares were acquired in a non-arm's length transaction received any subsection 83(1) dividends for transferred shares? (If **yes**, attach a schedule, provide details of amounts and dates received.) Yes No
7. Is the agreed amount of any of the transferred properties based on an estimate of FMV on V-Day? Yes No
 If **yes** to question 7, does a formal documented V-Day value report exist? Yes No
8. Has an election under subsection 26(7) of the *Income Tax Application Rules* (Form T2076) been filed by or on behalf of the taxpayer? Yes No

Where shares of the capital stock of a private corporation are included in the property disposed of, provide the following:

Corporation's name	
Business number	Paid-up capital of shares transferred
R C	

Description of shares received

Number of shares transferor received	Class of shares	Redemption value per share	Paid-up capital	Voting or non-voting	Are shares redeemable at the holder's option?
					Yes <input type="checkbox"/> No <input type="checkbox"/>
					Yes <input type="checkbox"/> No <input type="checkbox"/>
					Yes <input type="checkbox"/> No <input type="checkbox"/>
					Yes <input type="checkbox"/> No <input type="checkbox"/>
					Yes <input type="checkbox"/> No <input type="checkbox"/>

Informative notes

- The rules for section 85 elections are complex. Essential information is contained in Information Circular IC76-19, Interpretation Bulletins IT-291 and IT-378 and Income Tax Folio S4-F3-C1.
- Complete all the information areas and answer all questions. If this form is incomplete, we may consider the election invalid and a late-filing penalty may apply to future submissions.
- If the agreed amount is more than the adjusted cost base of the property in the election, you must report the difference as a capital gain, as income or a combination of both, whichever applies.

Election and certification

The taxpayer **and** the corporation jointly elect under subsection 85(1) in respect of the property specified, and certify that the information given in this election and in any attached documents is correct and complete.

Signature of Transferor, Authorized Officer or Authorized Person* **and** _____
Signature of Authorized Officer of Transferee

* Attach a copy of the authorizing agreement.

Date (yyyy-mm-dd)

Information on the eligible property disposed of and consideration received

Protected B when completed

	Date of sale or transfer of all properties listed below:			Note: For properties sold or transferred on different dates, use a separate Form T2057.						
				Year	Month	Day				
				Property disposed of		B Agreed amount (cannot be zero)	Amount to be reported B – A (if greater than 0, see note 5)	Consideration received		
	Description	Elected amount limits (see note 1)		Non-share Description	Share Number and class			Fair market value of total consideration		
Fair market value		A								
Capital property excluding depreciable property	(brief legal)		(see note 2)							
Depreciable property	(description and prescribed class)		(see note 3)							
Eligible capital property	(kind)		(see note 4)							
Inventory excluding real property	(kind)		(cost amount)							
Resource property	(brief legal)		nil							
Security or debt obligation property	(description)		(cost amount)							
Specified Debt Obligation (for financial institutions only)			(cost amount)							
Capital property that is real property owned by a non-resident person	(description)									
AgriInvest fund no. 2 (see note 6)			(cost amount)							

- Note 1: Read Interpretation Bulletin IT-291 for more information on eligible property and an explanation of the limits.
- Note 2: Adjusted cost base (subject to adjustment under section 53).
- Note 3: The lesser of undepreciated capital cost of all property of the class and the cost of the property.
- Note 4: The lesser of 4/3 of the cumulative eligible capital and the cost of the property.
- Note 5: This amount is to be reported either as a capital gain or as income, whichever applies. Also, in the case of depreciable property and eligible capital property, a portion of the amount may have to be reported as a capital gain while another portion of the amount may have to be reported as income.
- Note 6: Contributions made in a tax year ending after 2007, and amounts earned on those contributions, are only eligible if that property is owned by an individual.

Privacy statement

Personal information is collected under the *Income Tax Act* to administer tax, benefits, and related programs. It may also be used for any purpose related to the administration or enforcement of the Act such as audit, compliance and the payment of debts owed to the Crown. It may be shared or verified with other federal, provincial/territorial government institutions to the extent authorized by law. Failure to provide this information may result in interest payable, penalties or other actions. Under the *Privacy Act*, individuals have the right to access their personal information and request correction if there are errors or omissions. Refer to Info Source at canada.ca/cra-info-source, Personal Information Bank CRA PPU 047.