Inner Spirit Holdings Ltd.

Interim Condensed Consolidated Financial Statements
(Unaudited)
For the three and six months ended June 30, 2018 and 2017
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL RESULTS

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed financial statements of the Company have been prepared in accordance with IFRS and are the responsibility of the Company's management. The interim condensed consolidated financial statements and related financial reporting matters have been reviewed and approved by the Audit Committee.

The Company's independent auditor has not performed a review of these interim condensed financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim condensed consolidated financial statements by an entity's auditor.

Inner Spirit Holdings Ltd.
Interim Condensed Consolidated Statements of Financial Position
(Unaudited)
(Expressed in Canadian Dollars)
As at

	Note		June 30 2018 (Unaudited)		December 31 2017 (Audited)
ASSETS					
Current					
Cash		**$**	**1,461,180**	$	953,055
Accounts receivable			**29,540**		87,101
Marketable securities	5		**1,237,591**		-
Prepaid expenses and deposits			**250,340**		91,982
Inventory	6		**1,159,028**		680,430
Total current assets			**4,137,679**		1,812,568
Non-current					
Property and equipment	7		**1,318,582**		1,001,146
Lease deposits			**85,168**		8,000
Goodwill	8,9		**2,078,018**		2,078,018
Franchise agreements	8,9		**450,000**		475,000
Trademarks	8,9		**530,000**		530,000
Total assets		**$**	**8,599,447**	$	5,904,732
LIABILITIES AND SHAREHOLDERS' DEFICIT					
Current					
Accounts payable and accrued liabilities		**$**	**795,750**	$	539,774
Payable to shareholder	15		**-**		593,141
Unredeemed gift card liability			**159,005**		76,472
Total current liabilities			**954,755**		1,209,387
Non-current					
Franchise fee deposits	10		**884,100**		460,100
Royalty debt	11		**-**		1,000,000
Deferred revenue	5		**1,305,055**		-
Total liabilities			**3,143,910**		2,669,487
Shareholders' Equity					
Share capital	12		**9,571,091**		3,420,871
Share subscriptions	12		**-**		1,149,556
Contributed surplus	12(c)		**279,425**		-
Warrants	12(e)		**250,895**		-
Deficit			**(4,645,874)**		(1,335,182)
Total shareholders' equity			**5,455,537**		3,235,245
Total liabilities and shareholders' equity		**$**	**8,599,447**	$	5,904,732

Nature of Operations and Going Concern (Note 1)
Subsequent Events (Note 15)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Inner Spirit Holdings Ltd.
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in Canadian Dollars)
For the Three and Six Months Ended June 30, 2018 and 2017

		Three months ended June 30		Six months ended June 30	
	Note	**2018**	2017	**2018**	2017
Revenue					
Retail revenue		**$ 1,160,282**	$ -	**$ 2,092,107**	$ -
Royalties		**42,483**	-	**77,595**	-
Advertising		**10,621**	-	**19,399**	-
Miscellaneous revenue		**11,589**	-	**46,045**	-
Total revenue		**1,224,975**	-	**2,235,146**	-
Cost of goods sold	6	**640,543**	-	**1,161,936**	-
Gross profit		**584,432**	-	**1,073,210**	-
Operating expenses					
General and administrative		**491,303**	44,573	**821,107**	48,132
Salaries, wages, and benefits		**642,437**	150,000	**1,187,374**	150,000
Occupancy costs		**272,425**	-	**481,303**	-
Depreciation and amortization	7,9	**78,385**	-	**149,897**	-
Sales and marketing		**134,957**	95,791	**231,368**	95,791
Total operating expenses		**1,619,507**	290,364	**2,871,049**	293,923
Operating loss before other expenses		**(1,035,075)**	(290,364)	**(1,797,839)**	(293,923)
Share-based compensation	12(c)	**127,790**	-	**279,425**	-
Unrealized loss on marketable securities	5	**737,536**	-	**1,217,464**	-
Interest expense	13	**11**	-	**10,924**	-
Royalty expense	11	**-**	-	**5,040**	-
Net loss and comprehensive loss		**$ (1,900,412)**	$ (290,364)	**$ (3,310,692)**	$ (293,923)
Net loss per share					
- basic		**$ (0.03)**	$ (0.01)	**$ (0.05)**	$ (0.01)
- diluted		**$ (0.03)**	$ (0.01)	**$ (0.05)**	$ (0.01)
Weighted average shares outstanding					
- basic		**66,277,597**	24,480,909	**66,277,597**	24,480,909
- diluted		**66,277,597**	24,480,909	**66,277,597**	24,480,909

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Inner Spirit Holdings Ltd.
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(Expressed in Canadian Dollars)
For the Three and Six Months Ended June 30, 2018 and 2017

		Share Capital		Share	Contributed			
	Note	Number	Amount	Subscriptions	Surplus	Warrants	Deficit	Total
Balance, at incorporation		-	-	-	-	-	-	-
Issuance of founders shares	12	14,300,000	$ 13,000	$ -	$ -	$ -	$ -	$ 13,000
Private placements	12	21,874,589	826,439				-	
Net loss and comprehensive loss		-	-	-	-	-	(293,923)	(293,923)
Balance, June 30, 2017		36,174,589	$ 839,439	$ -	$ -	$ -	$ (293,923)	$ (280,923)
Balance, December 31, 2017		65,946,105	$ 3,420,871	$ 1,149,556	$ -	$ -	$ (1,335,182)	$ 3,235,245
Share subscriptions	12	11,495,560	1,149,556	(1,149,556)	-	-	-	-
Private placements	12	13,117,159	1,186,727	-	-	-	-	1,186,727
Debt conversion	11,12	10,000,000	1,000,000	-	-	-	-	1,000,000
Investment by Auxly	5,12	15,000,000	1,500,000	-	-	-	-	1,500,000
Auxly anti-dilution right	5,12	1,500,000	150,000	-	-	-	-	150,000
Investment by Sugarbud	12	7,500,000	1,036,739	-	-	213,261	-	1,250,000
Auxly anti-dilution right	5,12	1,323,529	160,895	-	-	37,634	-	198,529
Share issuance costs	12	-	(33,697)	-	-	-	-	(33,697)
Share-based compensation	12(c)	-	-	-	279,425	-	-	279,425
Net loss and comprehensive loss		-	-	-	-	-	(3,310,692)	(3,310,692)
Balance, June 30, 2018		**125,882,353**	**$ 9,571,091**	**$ -**	**$ 279,425**	**$ 250,895**	**$ (4,645,874)**	**$ 5,455,537**

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

(Expressed in Canadian Dollars)

Six months ended		June 30	
	Note	**2018**	2017
Cash provided by (used in) the following activities:			
Operating			
Net loss for the period		**$ (3,310,692)**	$ (293,923)
Items not affecting cash			
Amortization and depreciation	7,9	**149,897**	-
Share-based compensation	12(c)	**279,425**	-
Unrealized loss on marketable securities	5	**1,217,464**	-
Changes in non cash working capital balances:			
Change in accounts receivable		**57,561**	(50,000)
Change in prepaids and deposits		**(158,358)**	-
Change in inventory	6	**(478,598)**	-
Change in accounts payable and accrued liabilities		**255,976**	82,474
Change in unredeemed gift card liability		**82,533**	-
Lease deposits		**(77,168)**	-
Franchise fee deposits	10	**424,000**	20,000
Cash flow used in operating activities		**(1,557,960)**	(241,449)
Financing			
Private placements	12	**2,882,153**	623,353
Warrant issuances	12(e)	**219,407**	-
Payable to shareholder	15	**(593,141)**	-
Cash flow provided by financing activities		**2,508,419**	623,353
Investing			
Acquisition of property and equipment	7	**(442,334)**	-
Cash flow used in financing activities		**(442,334)**	-
Change in cash		**508,125**	381,904
Cash, beginning of period		**953,055**	-
Cash, end of period		**$ 1,461,180**	$ 381,904

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Inner Spirit Holdings Ltd. ("Inner Spirit" or the "Company") was incorporated under the Business Corporations Act (Alberta), on March 16, 2017. The Company was amalgamated under the Alberta Business Corporations Act on August 31, 2017 with 2043246 Alberta Ltd. ("204AB") to continue as Inner Spirit Holdings Ltd.

The Company has two wholly-owned subsidiaries, Spirit Leaf Inc. ("Spirit Leaf"), which has the primary business of the sale of franchise cannabis dispensaries across Canada pending legalization by the Federal and Provincial governments, and Watch It! Consolidated Ltd. ("Watch It"), which has the primary business of the sale of retail watch store franchises and the sale of watches and accessories through retail outlets across Canada and website sales.

The Company's registered office is located at Suite 1600 Dome Tower, 333 7th Avenue S.W, Calgary, AB.

These unaudited interim condensed consolidated financial statements ("Financial Statements") have been prepared on the going concern basis, which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

As of the date the Board of Directors approved these Financial Statements, the federal government of Canada has announced that the sale of cannabis will be legalized by October 2018, but that the framework regulating that sale in each province will be determined by each respective provincial government. If the provincial governments declare that they will not permit the retail sale of cannabis by private operators, or if the Company is unable to obtain approvals of its retail stores in the province, the Company's franchise model could be rendered inoperable. Furthermore, during the period ended June 30, 2018, the Company had not yet achieved profitable operations, incurred a net loss of $3,310,692 and, as of that date, the Company has an accumulated deficit of $4,645,874. The Company will require additional financing in order to conduct its planned business operations, meet its ongoing levels of corporate overhead and discharge its liabilities and commitments as they come due, all of which may cast significant doubt about the Company's ability to continue as a going concern.

Management's view is that the success of the Company is dependent upon the approval of retail sale of cannabis by private operators, financing its capital requirements and achieving profitable operations. Subsequent to the period ended, the Company completed an initial public offering, raising sufficient capital for future operations (Note 18).

The Financial Statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments could then be necessary to the carrying value of assets and liabilities, the reported expenses and their classifications. Such adjustments if required, could be material.

2. BASIS OF PRESENTATION AND SIGNFIFICANT ACCOUNTING POLICIES

Statement of compliance

These Financial Statements have been prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the period ended from incorporation March 16, 2017 to December 31, 2017.

These Financial Statements have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting". These Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited financial statements and notes thereto in the Company's December 31, 2017 audited financial statements available on SEDAR at www.sedar.com.

These Financial Statements were approved and authorized by the Board of Directors on August 28, 2018.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of measurement
The Financial Statements have been prepared on historical cost basis except for financial instruments and marketable securities which are measured at fair value as explained in the accounting policies.

Basis of consolidation
The Financial Statements include the accounts of Inner Spirit Holdings Ltd., Spirit Leaf Inc, and Watch It! Consolidated Ltd. ("Watch It"), which are wholly owned subsidiaries. The Company has consolidated the assets, liabilities and expenses of the subsidiaries after the elimination of inter-company transactions and balances.

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This control is evidenced through, among other things, owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. The financial statements of the subsidiary are included in the Financial Statements of the Company from the date that control commences until the date that control ceases. Consolidation accounting is applied to the Company's subsidiary.

Functional currency
These Financial Statements have been prepared in Canadian dollars, which is the Company's functional and presentation currency.

Financial instruments
Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. 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. Financial liabilities are derecognized when the Company's obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(I) *Financial assets and liabilities at fair value through profit or loss ("FVTPL"):* A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of loss and comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statement of loss and comprehensive loss within other gains and losses in the period in which they arise. Financial assets and liabilities that are FVTPL are classified as current except for the portion expected to be realized or paid beyond twelve months of the reporting date, which is classified as non-current.

(ii) *Loans and receivables:* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) *Financial liabilities at amortized cost:* Financial liabilities at amortized cost are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification	
Cash	Fair value through profit or loss
Marketable securities	Fair value through profit or loss
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Payable to shareholder	Amortized cost
Royalty debt	Amortized cost

Significant accounting judgments and estimates
The preparation of these Financial Statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods. Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Going concern

- Determining if the Company has the ability to continue as a going concern is dependent on its ability to achieve profitable operations and regulatory approval allowing the retail sale of cannabis by private operators. Certain judgments are made when determining if the Company will achieve profitable operations

Recently adopted accounting pronouncements

IFRS 9, Financial Instruments
The International Accounting Standards Board issued IFRS 9 – Financial Instruments that introduces new requirements for classifying and measuring financial instruments. The standard is effective for fiscal years beginning on or after January 1, 2018. IFRS 9 affects the classification and measurement of financial assets and financial liabilities and the recognition of expected credit losses. The Company adopted IFRS 9 effective January 1, 2018 on a retrospective basis. The prior year comparative information has not been adjusted with respect to the adoption of IFRS 9's classification and measurement requirements as the adoption of IFRS 9 did not result in any material changes.

There were no adjustments to the carrying amounts of financial instruments as a result of the measurement classification category changes from IAS 39 to IFRS 9.

Consistent with the requirements of IFRS 9, the Company assesses the lifetime expected credit losses on an ongoing basis and updates its assumptions, if and when required.

a) Financial assets - Pursuant to IFRS 9, the classification of financial assets is based on the Company's assessment of its business model for holding financial assets. The classification categories are as follows:
   - Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Financial assets at fair value through other comprehensive income: assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss: assets that do not meet the criteria for amortized cost or fair value through other comprehensive income.

Financial assets measured at amortized cost are measured at cost using the effective interest method. The amortized cost is reduced by impairment losses at an amount equal to the lifetime expected credit losses that result from all possible default events over the expected life of the financial instrument. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

b) Financial liabilities - The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the interim consolidated statements of loss and comprehensive loss.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the interim consolidated statements of loss and comprehensive loss.

Financial liabilities are derecognized when the obligation in discharged, cancelled or expired.

The following table summarizes the classification impacts of the adoption of IFRS 9:

Financial Instrument	Previous classification under IAS 39	New Classification under IFRS 9
Financial assets		
Cash	Loans and receivables	Fair value through profit and loss
Marketable securities	Loans and receivables	Fair value through profit and loss
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Payable to shareholder	Other liabilities	Amortized cost
Royalty debt	Other liabilities	Amortized cost

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future accounting pronouncements issued but not yet applied

At the date of authorization of these Financial Statements, certain new standards, amendments and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Company. Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's Financial Statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's Financial Statements.

IFRS 16, Leases

On January 13, 2016, the IASB published a new standard, IFRS 16, "Leases". The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted but only if the entity is also applying IFRS 15, "Revenue from contracts with customers". Under the new standard, a lessee recognizes a right-of-use asset and a lease liability. The right-of- use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest. The Company is still evaluating the impact the adoption of this standard will have on its Financial Statements. The Company expects to apply the standard by its mandatory effective date.

3. CAPITAL RISK MANAGEMENT

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach in the period. The Company considers its shareholder equity as capital which, as at June 30, 2018, is $5,455,537 (December 31, 2017 - $3,235,245).

4. FINANCIAL INSTRUMENTS AND RISK FACTORS

Fair values

At June 30, 2018, the Company's financial instruments consist of cash, accounts receivable, marketable securities, accounts payable and accrued liabilities. The fair values of cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term maturity of these instruments. Marketable securities have been marked to market.

Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4. FINANCIAL INSTRUMENTS AND RISK FACTORS (CONTINUED)

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash is classified as level 1, and marketable securities are classified as level 2. During the period ended June 30, 2018, there were no transfers of amounts between levels.

The Company has exposure to the following risks from its use of financial instruments:
- Credit risk; and,
- Liquidity risk
- Market risk

Credit risk
Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and accounts receivable. All of the Company’s cash includes petty cash, store cash floats, and cash held at a financial institution which is a Canadian Chartered in which management believes that the risk of loss is minimal. The accounts receivable balances consist of an ongoing account held with PayPal, Spirit Leaf franchise fee deposits outstanding, and December royalty revenue receivable from the franchises, which are considered reputable companies. All amounts are current.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations with cash. As at June 30, 2018, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the period. All financial liabilities are due within a year, except for the royalty debt that lasts into perpetuity.

Market risk
Market risk is the risk that changes in market prices will affect the Company’s earnings or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is exposed to equity price risk, which arises from investments measured at fair value through other comprehensive income (“FVTOCI”) and fair value through profit or loss (“FVTPL”). For such investments classified as at FVTOCI and FVTPL, the impact of a 10% increase in the share price would have increased equity by $158,279 before tax. An equal change in the opposite direction would have decreased equity by $158,279 before tax.

5. MARKETABLE SECURITIES

On February 6, 2018, the Company issued 15,000,000 shares to Auxly Cannabis Group Inc., formerly Cannabis Wheaton Income Corp. (“Auxly”), in consideration for Auxly: (i) paying to the Company the sum of $350,000 (the "Cash Consideration"); (ii) issuing to the Company 674,418 common shares in the capital of Auxly (the "Share Consideration"); and (iii) issuing to the Company 1,250,000 share purchase warrants, each share purchase warrant entitling the Company to purchase a common share in the capital of Auxly at an exercise price of $2.53 for a period of two (2) years. The agreement with Auxly also provides an anti-dilution right (the “Auxly Anti-Dilution Right”), allowing Auxly to maintain its ownership percentage in the Company’s voting securities in the event that the Company issues equity securities in the capital of the Company. Also, as part of the agreement, the Company will allocate 50% of its distribution locations’ floor space for Auxly products.

5. MARKETABLE SECURITIES (CONTINUED)

As at February 6, 2018, the Auxly warrants were valued using the Black Scholes model, with the following assumptions, (a) risk free interest rate of 1.80%, (b) stock price volatility of 110%.

The Company has allocated $1,305,055 (December 31, 2017 - $nil) of the investment in the Company as deferred revenue, which represents the difference between the fair value of consideration received and the fair value of the Company's shares transferred to Auxly (see Note 12(b)vii).

As at June 30, 2018, none of this deferred revenue has been amortized, since the Company has not yet opened any distribution locations and has not received any product needed to execute on the distribution agreement.

As at June 30, 2018, Auxly shares and the Auxly warrants were market down to fair market value based on the closing Auxly stock price on that date. The Auxly warrants were market down to fair market value based on the Black Scholes model using the similar assumptions above and the closing the Auxly stock price.

	Auxly Shares	Auxly Warrants	Total
Book value, December 31, 2017	$ -	$ -	$ -
Issued for common shares	1,267,906	1,187,149	2,455,055
Book value, June 30, 2018	**$ 1,267,906**	**$ 1,187,149**	**$ 2,455,055**
Unrealized loss	**(499,069)**	**(718,395)**	**(1,217,464)**
Fair Market Value, June 30, 2018	**768,837**	**$ 468,754**	**$ 1,237,591**

6. INVENTORY

Inventory consists of merchandise on hand in the amount of $1,159,028 as at June 30, 2018 (December 31, 2017 - $680,430). Included in cost of sales for the period ended are inventory write-downs for damaged inventory and inventory shrinkage in the amount of $nil (December 31, 2017 - $53,394). The cost of inventory recognized as an expense and included in cost of sales for the period ended June 30, 2018 amounted to $1,161,936 (December 31, 2017 - $1,465,201).

7. PROPERTY AND EQUIPMENT

Cost	**Computer Equipment**	**Furniture and Fixtures**	**Vehicle**	**Leasehold Improvements**	**Total**
December 31, 2017	$ 14,727	$ 277,422	$ -	$ 815,241	$ 1,107,390
Additions (Dispositions)	**(109)**	**129,841**	**27,557**	**285,045**	**442,334**
June 30, 2018	**$ 14,618**	**$ 407,263**	**$ 27,557**	**$ 1,100,286**	**$ 1,549,724**
Accumulated depreciation					
December 31, 2017	$ (5,516)	$ (25,708)	$ -	$ (75,020)	$ (106,244)
Depreciation for the period	**$ (2,333)**	**$ (30,871)**	**$ (2,028)**	**$ (89,666)**	**$ (124,898)**
June 30, 2018	**$ (7,849)**	**$ (56,579)**	**$ (2,028)**	**$ (164,686)**	**$ (231,142)**
Net book value					
December 31, 2017	$ 9,211	$ 251,714	$ -	$ 740,221	$ 1,001,146
June 30, 2018	**$ 6,769**	**$ 350,684**	**$ 25,529**	**$ 935,600**	**$ 1,318,582**

8. ACQUISITIONS

On July 15, 2017, the Company entered into an acquisition agreement with Watch It pursuant to which the Company acquired 100% of all of the issued and outstanding shares of Watch It for 27,345,516 of common shares in the Company at a deemed price of $0.09 per share, for total consideration of $2,485,956. As a result of the acquisition, Watch It became 100% directly owned subsidiary of the Company. The acquisition was treated as an issuance of common shares by the Company.

As Watch It is an operating business in accordance with IFRS 3, the transaction has been treated as a business combination, using the acquisition method. The purchase consideration has been allocated based on the Company's estimated fair value of the identifiable assets acquired and liabilities assumed. The goodwill and trademarks acquired are considered to have an indefinite useful life as it relates to the ongoing operations of the Watch It stores owned by the Company. The assets will be tested for impairment on an annual basis if indicators of impairment are present.

Goodwill arose in the acquisition because the cost of acquisition included amounts in relation to the benefit of expected revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Approximately $350,000 of the goodwill arising on acquisition is expected to be deductible for tax purposes.

9. GOODWILL AND INTANGIBLE ASSETS

Cost	**Goodwill**	**Franchise Agreements**	**Trademarks**	**Total**
Beginning	$ -	$ -	$ -	$ -
Acquired in business combination (Note 8)	$2,078,018	$ 500,000	$ 530,000	$3,108,018
June 30, 2018 and December 31, 2017	**$2,078,018**	**$ 500,000**	**$ 530,000**	**$3,108,018**
Accumulated amortization				
Beginning	$ -	$ -	$ -	$ -
Amortization for the period	$ -	$ (25,000)	$ -	$ (25,000)
December 31, 2017	$ -	$ (25,000)	$ -	$ (25,000)
Amortization for the period	**$ -**	**$ (25,000)**	**$ -**	**$ (25,000)**
June 30, 2018	**$ -**	**$ (50,000)**	**$ -**	**$ (50,000)**
Net book value				
December 31, 2017	$2,078,018	$ 475,000	$ 530,000	$3,083,018
June 30, 2018	**$2,078,018**	**$ 450,000**	**$ 530,000**	**$3,058,018**

At December 31, 2017, the Company performed its annual impairment test on goodwill and its indefinite life intangible assets. The Company used a Discounted Cash Flow Method to determine the recoverable amount of the CGU. Based on the impairment test performed, the Company concluded that no impairment exists on its goodwill and indefinite life intangible assets.

10. FRANCHISE FEE DEPOSITS

The Company has a franchise model associated with its cannabis operations. The franchisee is required to pay $25,000 for each franchise as follows: (i) $15,000 upon signing the Franchise Agreement (2017 - $5,000 upon signing the agreement and $10,000 by December 31, 2017) and (ii) $10,000 by June 30, 2018. For franchisees that open multiple stores, a discounted amount was offered for each additional location. The franchise fee for each additional location was $12,500 payable as follows: (i) $8,750 upon signing the Franchise Agreement and (ii) $3,750 by June 30, 2018. The Franchise Agreement provides that $5,000 of the franchise fee is non-refundable. For those franchisees that signed agreements in 2017, the franchisee was able to able to invest a portion of the franchise fee into common shares of the Company.

The entirety of this amount is accounted for as a non-current liability, franchise fee deposits, and will be earned and recorded as revenue as each store opens.

	Non-Refundable	Refundable	Total
New franchisees	$ 460,100	-	$ 460,100
Balance as of December 31, 2017	$ 460,100	$ -	$ 460,100
New franchisees	30,000	394,000	$ 424,100
Balance as at June 30, 2018	**$ 490,100**	**$ 394,000**	**$ 884,100**

The refundable portion of the franchise fees are deposited into a savings bank account, which is segregated from the Company's operating bank accounts.

As at June 30, 2018, there was an aggregate of $576,000 owing on the last payment by the franchisees. As this amount had not been received and is refundable, it has not been recognized on the Financial Statements.

11. ROYALTY DEBT

As at June 30, 2018, royalty debt was $nil (December 31, 2017 - $1,000,000). During the period ended March 31, 2018, the royalty agreement was terminated and was converted to 10,000,000 common shares at a deemed price of $0.10 per share. Prior thereto, the Company received financing from Grenville Strategic Royalty Corp. ("Grenville") in the form of a secured royalty agreement in the amount of $1,000,000 in exchange for a royalty on gross sales in perpetuity (the "Royalty Agreement"). The agreement required the Company to make minimum monthly royalty payments of no less than $10,417 per month or a monthly royalty payment equal to 0.40% of system wide sales. The Company had a buy-out option that could extinguish all amounts owing without any penalties. For the period ended June 30, 2018, the Company recorded total royalty expense of $5,040 (December 31, 2017 -$58,132).

12. SHARE CAPITAL

(a) Authorized:

The Company is authorized to issue an unlimited number of common shares and preferred shares with no par value.

12. SHARE CAPITAL (CONTINUED)

(b) Issued common shares:

Balance at incorporation	$	-
37,100,588 Common voting shares associated with founder shares and private placements (Note i)		931,439
27,345,516 Common voting shares issued in association with the business combination (Note ii)		2,485,956
1,500,000 Common shares issued on amalgamation with 2043246 Alberta Ltd. (Note iii)		45,000
Share issuance costs		(41,524)
Balance, December 31, 2017	$	3,420,871
Private placements (Notes iv, v, ix)		**2,336,283**
Debt conversion (Note vi)		**1,000,000**
Investment by Auxly (Note vii)		**1,500,000**
Anti-dilution investment by Auxly (Note viii)		**150,000**
Investment by Sugarbud (Note x)		**1,036,739**
Anti-dilution investment by Auxly (Note xi)		**160,895**
Share issuance costs		**(33,697)**
Balance, June 30, 2018	**$**	**9,571,091**

Pursuant to the Amalgamation on August 31, 2017, shareholders of the Company received 11 Common voting shares in exchange for every 1 of their prior shares. All numbers reflect the post-split shares.

i. During the period ended December 31, 2017, the Company issued founder shares and completed several private placements.
   - On March 16, 2017, the Company issued 14,300,000 Common voting shares to founders at a price of $0.001 for gross proceeds of $13,000.
   - On May 5, 2017, the Company issued 12,912,889 Common voting shares to key employees and consultants at a price of $0.001 for gross proceeds of $11,739.
   - On May 11, 2017, the Company completed a private placement by issuing 6,820,000 Common voting shares at a price of $0.10 for gross proceeds of $620,000.
   - On June 30, 2017, the Company completed a private placement by issuing 2,141,700 Common voting shares at a price of $0.10 for gross proceeds of $194,700.
   - On July 5, 2017, the Company the Company completed a private placement by issuing 66,000 Common voting shares at a price of $0.10 for gross proceeds of $6,000.
   - On September 15, 2017, the Company completed a private placement by issuing 860,000 Common voting shares at a price of $0.10 for gross proceeds of $86,000.

ii. On July 15, 2017, the Company acquired Watch It by issuing 27,345,516 Common voting shares at a price of $0.0909 for gross consideration of $2,485,956 (Note 8).

iii. On August 31,2017, 2017, the Company amalgamated with 204Ab., and issued 1,500,000 Common voting shares at a price of $0.03 per shares with a cost base of $45,000.

iv. During the period ended December 31, 2017, the Company had raised $1,149,556 through private placements and conversion of franchise fee deposits in shares at a price of $0.10 per Common voting shares. The shares were issued subsequent to year-end. This is shown as share subscription on the statement of changes in equity.

v. On January 18, 2018, the Company completed a private placement by issuing 7,618,895 Common voting shares at a price of $0.10 for gross proceeds of $761,890. On February 5, 2018, the Company completed a private placement by issuing 9,935,000 Common voting shares at a price of $0.10 for gross proceeds of $993,500. Of these total proceeds, $1,149,556, was received prior to year-end, and is recorded on the balance sheet as share subscriptions.

12. SHARE CAPITAL (CONTINUED)

vi. On January 18, 2018, the Company issued 10,000,000 Common voting shares at a price of $0.10 Grenville pursuant to termination of their royalty agreement with Watch It.

vii. On February 6, 2018, the Company issued 15,000,000 Common voting shares to Auxly at a price of $0.10 per share in consideration for Auxly: (i) paying to the Company the sum of $350,000 (the "Cash Consideration"); (ii) issuing to the Company 674,418 common shares in the capital of Auxly (the "Share Consideration"); and (iii) issuing to the Company 1,250,000 share purchase warrants, each share purchase warrant entitling the Company to purchase a common share in the capital of Auxly at an exercise price of $2.53 for a period of two (2) years.

viii. On February 6, 2018, the Company issued 1,5000,000 Common voting shares to Auxly at $0.10 per share in consideration for cash consideration of $150,000 pursuant to the Auxly Anti-Dilution Right (Note 5);

ix. On March 27, 2018, the Company completed a private placement by issuing 7,058,820 Common voting shares at a price of $0.10 for gross proceeds of $705,882.

x. On June 8, 2018, the Company entered into an investment agreement (which was amended on June 21, 2018) with Sugarbud Craft Growers Corp, formerly Relentless Resources Ltd. (“Sugarbud”), pursuant to which Sugarbud agreed to purchase 15,000,000 Common voting shares at a price of $0.15 per share and 7,500,000 Warrants of the Company, in exchange for $1,125,000 in cash, 8,108,108 common shares in the capital of Sugarbud and 1,125,000 common share purchase warrants of Sugarbud with an exercise price of $0.30 per share, for a period of two (2) years following the date of issuance, subject to vesting provisions. The agreement is subject to certain conditions including TSX Venture Exchange approval for the issuance of the Sugarbud securities. On June 21, 2018, the Company and Sugarbud entered into an amended investment agreement. On June 22, 2018, the Company completed the initial closing of the investment by issuing 7,500,000 common shares of the Company and 3,750,000 common share purchase warrants to Sugarbud for cash consideration of $1,125,000. The common share purchase warrants entitle Sugarbud to purchase common shares of the Company at $0.30 per share (subject to certain adjustments) at any time prior to June 22, 2020. It is anticipated that the second closing will occur after Sugarbud receives TSX Venture Exchange approval, and the balance of 7,500,000 common shares and 3,750,000 common share purchase warrants will be issued in exchange for the Sugarbud common shares and warrants.

xi. On June 22, 2018, pursuant to the exercise of the Auxly Anti-Dilution Right (Note 5), the Company issued an additional 1,323,529 Common voting shares at a price of $0.15 per share and 661,765 common share purchase warrants of the Company for cash consideration of $198,529. The common share purchase warrants entitle Auxly to purchase common shares of the Company at $0.30 per share (subject to certain adjustments) at any time prior to June 22, 2020.

(c) Share-based compensation

On February 28, 2018, the Company granted 9,125,000 options at a price of $0.10 per share to directors, officers, employees, and consultants, pursuant to the Company’s stock option plan. The value of the options was determined to be $563,545 and was calculated by using the Black Scholes Model. The following assumptions were used in the Black Scholes model (a) risk free interest rate of 1.93%, (b) share price volatility of 75%, and (c) 5 years as expected life of options.

During the period ended June 30, 2018, the Company issued 2,000,000 warrants were issued for consulting services and security for leases. The value of the warrants was determined to be $126,610 and was calculated by using the Black Scholes Model. The following assumptions were used in the Black Scholes model (a) risk free interest rate of 1.77%-1.93%, depending on term of the warrant (b) share price volatility of 110%, and (c) 1.5 years to 4.76 years expected life of warrant, depending on the terms of the warrant.

(d) Options

The board of directors of the Company may from time to time, in its discretion, may grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares.

12. SHARE CAPITAL (CONTINUED)

As at June 30, 2018, the following options are outstanding.

	Number of Options		Weighted Average Exercise Price
Balance, December 31, 2017	-	$	-
Issued during period	**9,125,000**	**$**	**0.10**
Balance, June 30, 2018	**9,125,000**	**$**	**0.10**
Exercisable, end of period	**2,281,250**	**$**	**0.10**

Number Outstanding	Exercise Price	Weighted Average Remaining Contractual Life	Date of Expiry	Exercisable
9,125,000	$0.10	4.67 years	28-Feb-23	2,281,250

(e) Warrants

During the period ended June 30, 2018, the Company issued a total of 6,411,765 warrants. 2,000,000 warrants were issued for consulting services and security for leases, and another 4,411,765 were issued for the Sugarbud and Auxly investments. The value of the warrants was determined to be $250,895 and was recorded as Warrants on the balance sheet and was calculated by using the Black Scholes Model. The following assumptions were used in the Black Scholes model (a) risk free interest rate of 1.77 (b) share price volatility of 110%, and (c) 1.98 years expected life of warrant.

	Number of Warrants		Exercise Price	Expiry date
Balance, December 31, 2017	-	$	-	
Issued for services	**400,000**	**$**	**0.10**	**31-Dec-19**
Issued for services	**100,000**	**$**	**0.10**	**31-Dec-19**
Issued for services	**500,000**	**$**	**0.10**	**3-Apr-23**
Issued for services	**300,000**	**$**	**0.10**	**3-Apr-23**
Issued for services	**100,000**	**$**	**0.10**	**11-May-20**
Issued for services	**600,000**	**$**	**0.15**	**11-May-20**
Sugarbud investment	**3,750,000**	**$**	**0.30**	**22-Jun-20**
Auxly investment	**661,765**	**$**	**0.30**	**22-Jun-20**
Balance, June 30, 2018	**6,411,765**			
Exercisable, end of period	**5,611,765**			

Number of Warrants		Weighted Average Exercise Price	Weighted Average Remaining Life
6,411,765	**$**	**0.24**	**2.28 years**

13. RELATED PARTY TRANSACTIONS

As at June 30, 2018, there was $nil (December 31, 2017 - $5,000) of outstanding payables to related parties, that is included in accounts payable and accrued liabilities.

During the period ended, the Company paid rent for office space to a company related by virtue of common ownership, in the amount of $22,758 (December 31, 2017 - $30,565). The lease expired on March 31, 2018, but is continuing on a month to month basis. The rent for this office space is $3,793 per month, which is at fair market value.

During the period ended December 31, 2017, payable to shareholder was an interest bearing promissory note secured over the property of the Company, and due on demand which bore interest at a compounded monthly rate of 12.5%. The loan was secured by the property of the Company, pari-passu to the Royalty Agreement (Note 13). During the period ended, March 31, 2018, the payable to shareholder was paid out in full. As at June 30, 2018, there was $nil (December 31, 2017 - $593,141) payable to the CEO. There was $10,875 in interest expense to the CEO during the period ended June 30, 2018 (December 31, 2017 - $36,330).

14. SEGMENTED INFORMATION

The Company is a holding company that operates in two segments through its two wholly-owned subsidiaries, Spirit Leaf Inc., which has the primary business of the sale of franchise cannabis dispensaries across Canada pending legalization by the Federal and Provincial governments; and Watch It! Consolidated Ltd., which has the primary business of the sale of retail watch store franchises and the sale of watches and accessories through retail outlets across Canada and website sales. The Company also has one other segment, Inner Spirit, for its corporate administration. All of the Company’s assets are located in Canada.

	Watch It	Spirit Leaf	Inner Spirit	Total
Revenue				
Retail revenue	$2,092,107	$ -	$ -	$2,092,107
Royalties	77,595	-	-	77,595
Advertising	19,399	-	-	19,399
Miscellaneous revenue	4,469	41,548	28	46,045
	2,193,570	41,548	28	2,235,146
Cost of goods sold	1,129,809	32,127	-	1,161,936
Gross profit	1,063,761	9,421	28	1,073,210
General and administrative	183,360	282,714	355,033	821,107
Salaries, wages, and benefits	742,670	444,044	660	1,187,374
Occupancy costs	423,175	58,128	-	481,303
Depreciation and amortization	126,566	23,131	200	149,897
Sales and marketing	43,222	124,453	63,693	231,368
Total operating expenses	1,518,993	932,470	419,586	2,871,049
Operating loss before other expenses	(455,232)	(923,049)	(419,558)	(1,797,839)
Share-based compensation	-	-	279,425	279,425
Unrealized loss on marketable securities	-	-	1,217,464	1,217,464
Interest	10,924	-	-	10,924
Royalties	5,040	-	-	5,040
Net loss and comprehensive loss	(471,196)	(923,049)	(1,916,447)	(3,310,692)
Total assets	$5,136,132	$1,195,724	$2,267,591	$8,599,447
Total liabilities	$ 538,493	$1,149,986	$1,455,431	$3,143,910

15. SUBSEQUENT EVENTS

a) On July 31, 2018, the Company completed its initial public offering ("IPO") raising $3,750,000 through the issuance of 25,000,000 units, at a price of $0.15 per unit. Each unit consisted of one common share in the capital of the Company and one-half of one common share purchase. Each full warrant will entitle the holder thereof to acquire, subject to adjustment in certain circumstances, one common share in the capital of the Company at an exercise price of $0.30 for a period of 24 months following the closing of the IPO.

b) On July 31, 2018 the Company closed its investment agreement with Newstrike Brands Ltd. (HIP: TSXV) ("Newstrike") (the "Newstrike Investment Agreement"), pursuant to which both Newstrike and the Company have acquired equity interests in each other. Newstrike made an aggregate investment in the Company valued at $2.25 million comprised of $1,125,000 in cash and 1,250,000 Newstrike common shares (the "Newstrike Shares") issued at closing at a price of $0.90, which is equal to the five-day volume weighted average price (VWAP) calculated as at May 22, 2018, being the date that the investment agreement was executed. Newstrike has also issued 1,125,000 warrants to purchase Newstrike common shares (the "Newstrike Warrants"). The Newstrike Warrants have an exercise price of $0.99, a term of 24 months and will vest on a performance-based schedule triggered by the opening of a pre-determined number of future Spirit Leaf locations. The Newstrike Share and Newstrike Warrants are subject to a four month hold period.

   In consideration for Newstrike's investment in Inner Spirit, Inner Spirit issued Newstrike, 15,000,000 units of the Company ("Units") on the same terms as such securities were offered under the Company's IPO at a price of $0.15 per Unit. Each Unit was comprised of one common share of the Company and one-half of a common share purchase warrant, exercisable at $0.30 per share for a period of two (2) years following the date of issuance, subject to adjustment.

c) Auxly has exercised its right as part of the IPO and Newstrike closing to purchase an additional 7,058,824 Units (the "Auxly Units"), on the same terms as the IPO Units, for gross proceeds of $1,058,823.60.