INNER SPIRIT HOLDINGS ish

INNER SPIRIT HOLDINGS LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

The following Management's Discussion and Analysis ("MD&A") of the financial results of Inner Spirit Holdings Ltd. ("ISH" or the "Company") should be read in conjunction with the unaudited interim unaudited condensed consolidated financial statements (the "Financial Statements") for the three and six months ended June 30, 2018, and the audited consolidated financial statements for the period from incorporation on March 16, 2017 to December 31, 2017. The Financial Statements were prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting". Unless otherwise noted, all dollar amounts are in Canadian dollars. Further information regarding the Company is available on SEDAR at www.sedar.com. This MD&A is dated August 28, 2018**.**

Forward Looking Statements

Certain statements contained within the MD&A, and in certain documents incorporated by reference into this document, constitute forward looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward looking statements. Forward looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

In particular, this MD&A contains the following forward-looking statements pertaining to, without limitation, the following: changes in general and administrative expenses; future business operations and activities and the timing thereof; the future tax liability of the Company; the estimated future contractual obligations of the Company; the future liquidity and financial capacity of the Company; and its ability to fund its working capital and forecasted capital expenditures.

With respect to the forward-looking statements contained in this MD&A, the Company has made assumptions regarding: the ability to raise capital and; the continued availability of capital; the ability to obtain financing on acceptable terms; and the continuation of the current tax and regulation.

We believe the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be. The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth below and elsewhere in this MD&A: counterparty credit risk; access to capital; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws; and the other factors discussed in this MD&A.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward-looking statements contained in this document speak only as of the date of this document and the Company does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

Overview

Inner Spirit Holdings Ltd. (“Inner Spirit” or the “Company”) was incorporated under the Business Corporations Act (Alberta) (“ABCA”), on March 16, 2017. The Company was then amalgamated under the ABCA on August 31, 2017 with 2043246 Alberta Ltd. (“204Ab”), a private holding company with no active business operations, with the intent of going public through an initial public offering. The registered office of the Company is Suite 1600, 333 - 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

The Company has two business units which it operates through its two wholly-owned subsidiaries, Spirit Leaf Inc. (“Spirit Leaf”) and Watch It! Consolidated Ltd. (“Watch It”). The two business units are comprised of: (i) the business of Spirit Leaf, which will consist of the planned opening of 2 corporately owned cannabis dispensaries owned and operated by Spirit Leaf, 2 joint venture dispensaries, and the opening of franchise cannabis dispensaries initially in Alberta, British Columbia, and Saskatchewan, pending legalization by the Federal and Provincial governments within Canada, and (ii) the business of Watch It, whose business includes the marketing, sale and distribution of watches, sunglasses, watch repair services and related accessories through eight owned locations, seven franchise stores and two e-commerce sites. Spirit Leaf also intends to open cannabis dispensaries (both owned and franchised), operate an online business to sell cannabis consumer products and develop its own cannabis branded products which it anticipates to sell and distribute through the proposed owned and franchised dispensaries. Spirit Leaf and Watch It were incorporated under the laws of the Province of Alberta and are both headquartered in Calgary, Alberta.

Subsequent Events and Proposed Transactions

There are currently no proposed transactions contemplated, other than the following:

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.

Business Objectives and Milestones and Capital Spending

The Company's business objectives, and the significant events that must occur for each such business objective to be accomplished, are as follows:

Business Objective	Milestones	Estimated Costs related to Business Objective (Maximum IPO)	Time Period
Conduct marketing and advertising campaign in applicable Canadian provinces and sell additional Spirit Leaf franchise locations across Canadian jurisdictions where the private sale of recreational cannabis is permitted.	Various branding and marketing initiatives, including a public relations campaign from May 1, 2018 to August 31, 2018, and the sale of 10 individual franchises in the province of British Columbia.	$230,000	Current – December 31, 2018
To open franchise locations in British Columbia, Alberta and Saskatchewan.	The opening of each Sprit Leaf franchise location.	$1,200,000(1)	Current – July 31, 2019
To open two Company-owned locations, one in the city of Calgary, Alberta and one in the city of Edmonton, Alberta.	Opening of the first corporate flagship location to commence selling cannabis upon legalization.	$764,253(2)	Current – August 31, 2018
To open two MOU Dispensaries(6) in the city of Calgary, Alberta.	Opening of the first MOU Dispensary(6) to commence selling cannabis upon legalization.	$167,679(3)	Current – August 31, 2018
To purchase inventory to be sold in Company-owned locations, MOU Dispensaries(6), and franchise locations.	The purchase of inventory of non-cannabis products and, upon the legalization of recreational cannabis, cannabis products.	$800,000(4)	Current – December 31, 2018.
To generate cash reserves to be used for additional expenses, if any, which may be incurred by the Company if it does not achieve its stated business objectives within the anticipated time periods.	Completion of the IPO.	$1,757,288(5)	Upon Closing of the IPO
Total:		**$4,919,220**	

Notes:

(1) This amount represents the general and administrative expenses anticipated to be incurred by the Company to support the opening of franchise locations in British Columbia, Alberta and Saskatchewan prior to July 31, 2019.

(2) Estimated cost per store of $400,000 ($800,000 in total) for Spirit Leaf capital expenditures and related expenses, of which an aggregate of $35,747 has been expended prior to the date hereof. This amount does not include $200,000 in anticipated inventory purchases for each Company-owned location ($400,000 in total).

(3) Estimated cost per store of $200,000 ($400,000 in total) for Company capital expenditures and related expenses, of which an aggregate of $232,321 has been expended prior to the date hereof. This amount does not include $100,000 in anticipated inventory purchases for each MOU Dispensary ($200,000 in total).

(4) To date, the Company has purchased $100,000 of non-cannabis products inventory. Including such purchases, the Company anticipates spending in the aggregate $900,000 to purchase inventory, which amount represents $200,000 in anticipated inventory purchases for two MOU Dispensaries ($100,000 for each MOU Dispensary), $400,000 in anticipated inventory purchases for two Company-owned locations ($200,000 for each company-owned location), and $300,000 in anticipated purchases of inventory for sale to franchisees.

(5) This amount includes funding of an estimated $100,000 per month in negative cash flow until the Company is able to commence operating its proposed cannabis business. The Company does not anticipate using any funds from the Offering to fund Watch It's operations.

(6) "MOU Dispensary" means a Spirit Leaf franchise cannabis dispensary proposed to be established and operated by the Company and 1010805 Alberta Ltd. pursuant to the JV.

The Company intends to increase awareness of its proposed cannabis franchise business and its own proprietary licensed brand cannabis products through display advertising and marketing campaigns on traditional and social media platforms. The Company will also review the various marketing campaigns to determine the effectiveness of the marketing campaigns and the return on investment (in the form of sales) generated thereby.

The capital resources required for the completion of the above business objectives and milestones is anticipated to come from the recently completed private placements and investment agreements as well as from the initial public offering being completed by the Company.

Selected Annual Information

The following table provides a brief summary of the Company' financial operations. For more detailed information, refer to the Company's audited consolidated financial statements.

For the period ended March 16, 2017 to December 31, 2017	
Total Revenues	$ 2,912,272
Operating loss before other expenses	$ (1,304,117)
Net loss and comprehensive loss	$ (1,335,182)
Basic and diluted loss per share	$ (0.03)
Total assets	$ 5,904,732
Total long-term liabilities	$ 1,460,100
Cash dividends	$ -

As the Company was incorporated on March 16, 2017, the period ending December 31, 2017 was the first year of operations, so there is no prior annual information.

Discussion of Operations

Consolidated Operations

For the three months ended June 30, 2018, total consolidated revenue was $1,224,975 (2017 – $nil), consolidated cost of goods sold was $640,543 (2017 – $nil), and the consolidated gross profit was $584,432 (2017 – $nil). Total consolidated operating expenses were $1,619,507 (2017 – $290,364), consisting of salaries and wages of $642,437 (2017 – $150,000), general and administration of $491,303 (2017 – $44,573), occupancy costs of $272,425 (2017 – $nil), sales and marketing of $134,957 (2017 – $95,791), depreciation of and amortization of $78,385 (2017 – $nil). Other consolidated expenses consisted of share-based compensation of $127,790 (2017 – $nil), unrealized loss on marketable securities of $737,536 (2017 – $nil), and interest of $11 (2017 – $nil). The consolidated net loss and comprehensive loss was $1,900,412 (2017 – $290,364).

For the six months ended June 30, 2018, total consolidated revenue was $2,235,146 (2017 – $nil), consolidated cost of goods sold was $1,161,936 (2017 – $nil), and the consolidated gross profit was $1,073,210 (2017 – $nil). Total consolidated operating expenses were $2,871,049 (2017 – $293,923), consisting of salaries and wages of $1,187,374 (2017 – $150,000), general and administration of $821,107 (2017 – $48,132), occupancy costs of $481,303 (2017 – $nil), sales and marketing of $231,368 (2017 – $95,791), depreciation and amortization of $149,897 (2017 – $nil). Other consolidated expenses consisted of share-based compensation of $279,425 (2017 – $nil), unrealized loss on marketable securities of $1,217,464 (2017 – $nil), interest of $10,924 (2017 – $nil), and royalties of $5,040 (2017 – $nil). The consolidated net loss and comprehensive loss was $3,310,692 (2017 – $293,923).

Watch It Division

For the three months ended, June 30, 2018, total revenue from the Watch It division was $1,212,796 and consisted of 1,160,282 of retail revenue, $42,483 from royalties, and the balance of revenue related to advertising revenue. Cost of goods sold was $630,539, and the gross profit was $582,257. Total operating expenses from the Watch It division were $857,369, consisting of salaries and wages of $397,213, occupancy costs of $227,371, general and administration of $130,784, depreciation and amortization of $71,279, sales and marketing of $30,722. Other expenses consisted of interest of $11. The net loss and comprehensive loss for this division was $275,123. Watch It did not have any operations for the period ended June 30, 2017.

For the six months ended June 30, 2018, total revenue from the Watch It division was $2,193,570 and consisted of $2,092,107 of retail revenue, $77,595 from royalties, $19,399 from advertising revenue, and the balance of $4,469 related to miscellaneous revenue. Cost of goods sold was $1,129,809, and the gross profit was $1,063,761. Total operating expenses from the Watch It division were $1,518,993, consisting of salaries and wages of $742,670, occupancy costs of $423,175, general and administration of $183,360, depreciation and amortization of $126,566, sales and marketing of $43,222. Other expenses consisted of interest of $10,924 and royalties of $5,040. The net loss and comprehensive loss for this division was $471,196. Watch It did not have any operations for the period ended June 30, 2017.

Management continually evaluates the performance of the operations of the Watch It division by reviewing the following key performance metrics:

- Revenue;
- Gross margins;
- Staff to sales ratios - Total staffing costs to sales ratio; and
- Rent to sales ratios - Total rent costs to sales ratio.

The following is a summary of the key performance metrics for the three months ended June 30, 2018:

- Revenue was higher this quarter versus the quarter ended March 31, 2018, as the division has been able to emerge from its recent restructuring process, improve operations, and increase its inventory levels to optimal levels. Total revenue for Watch It for this quarter (Q2) was $1,212,796 versus $980,774 in the prior quarter (Q1). Management expects that with optimal inventory levels in place, revenue will continue to increase.
- Gross margins of 48% were in line with management's expectations for the period. It is expected that margins will improve in future quarters.
- Staff to sales ratios were lower this quarter than the quarter ended March 31, 2018, as a result improving sales. Total salaries, wages and benefits were $0.398 million on sales $1.21 million, so the staff to sale ratio was 33% (March 31, 2018 - 35%).
- Rent to sales ratio was lower this quarter versus the quarter ended March 31, 2108, due to improving sales. Occupancy costs were $0.227 million on sales of 1.212 million, resulting in a rent to sales ratio of 19% (March 31, 2018 – 20%).

The higher performance metrics for the quarter discussed above resulted mainly from ongoing gradual improvement of the retail business.

Spirit Leaf Division

For the three months ended June 30, 2018, total revenue from the Spirit Leaf division was $12,151. There was $884,100 (December 31, 2017 -$460,100) of deferred revenue from franchise fee deposits received but not yet earned, which is recorded as a liability on the balance sheet. This revenue will be recorded as revenue upon the opening of store fronts for each of the 12 franchises sold during the period ended June 30, 2018 (December 31, 2017 – 93). Total expenses from the Spirit Leaf division were $594,585, consisting of general and administration of $155,797, salaries and wages of $244,564, occupancy costs of $48,054, depreciation and amortization of $21,717 and sales and marketing of $124,453. The net loss and comprehensive loss for this division was $592,438. Spirit Leaf did not have any operations for the period ended June 30, 2017.

For the six months ended June 30, 2018, total revenue from the Spirit Leaf division was $41,548. There was $884,100 (December 31, 2017 -$460,100) of deferred revenue from franchise fee deposits received but not yet earned, which is recorded as a liability on the balance sheet. This revenue will be recorded as revenue upon the opening of store fronts for each of the 12 franchises sold during the period ended June 30, 2018 (December 31, 2017 – 93). Total expenses from the Spirit Leaf division were $932,470, consisting of general and administration of $282,714, salaries and wages of $444,044, occupancy costs of $58,128, depreciation and amortization of $23,131 and sales and marketing of $124,453. The net loss and comprehensive loss for this division was $923,049. Spirit Leaf did not have any operations for the period ended June 30, 2017.

Inner Spirit Corporate Division

For the three months ended June 30, 2018, revenue from the corporate administration division of Inner Spirit was $28 (2017 -$nil), as this division manages the administration of the operating subsidiaries. Total operating expenses from this division was $263,964 (2017 -$290,364), consisting of general and administration of $202,311 (2017 -$44,573), sales and marketing of $63,693(2017 -$ 95,791), and salaries and benefits of $660 (2017 - $150,000). Share-based compensation expense was $127,790 (2017 -$nil), and the unrealized loss on marketable securities was $737,536 (2017 -$nil), for the period ended. The net loss and comprehensive loss for this division was $1,131,962 (2017 -$290,364).

For the six months ended June 30, 2018, revenue from the corporate administration division of Inner Spirit was $28 (2017 -$nil), as this division manages the administration of the operating subsidiaries. Total operating expenses from this division was $419,586 (2017 -$293,923), consisting of general and administration of $355,033 (2017 -$48,132), sales and marketing of $63,693 (2017 -$95,791), salaries and benefits of $660 (2017 -$150,000), and depreciation of $200 (2017 -$nil), Share-based compensation expense was $279,425 (2017 -$nil), and the unrealized loss on marketable securities was $1,217,464 (2017 -$nil), for the period ended. The net loss and comprehensive loss for this division was $1,916,447 (2017 -$293,923).

Summary of Quarterly Results

Since the Company was incorporated on March 16, 2017 and was not a reporting issuer until July 20, 2018 quarterly financial statements have only been prepared for last three quarters.

	2nd Quarter 30-Jun-18	1st Quarter 31-Mar-18	4th Quarter 31-Dec-17
Revenue	$ 1,224,975	$ 1,010,171	$ 1,895,382
Net loss	$ (1,867,476)	$ (1,410,280)	$ (381,378)
Basic loss per share	$ (0.03)	$ (0.01)	(0.01)
Diluted loss per share	(0.03)	$ (0.01)	(0.01)

Revenue for the quarter ended June 30, 2018 was higher than the prior quarter, due to improving revenue and operations from the Watch It division. Revenue was mainly attributable to the revenue from Watch It, which totaled $1,212,796 (2017 - nil). Cost of goods sold for the quarter was $640,543 (2017 - nil). Total operating expenses for the period were $1,619,507 (2017 - $290,364), made up of general and administration of $491,303 (2017 - $44,573), salaries and wages of $642,437 (2017 -$150,000), occupancy costs of 272,425 (2017-$nil), depreciation and amortization of $78,385 (2017-nil), and sales and marketing of $134,957(2017 – $95,791). Other expenses included share-based compensation of $127,790 (2017-$nil), unrealized loss on marketable securities of $737,536 (2017- $nil), and interest of $11 (2017 -$nil).

The larger loss in the 2nd quarter of 2018 was attributable to a number of factors:

- share-based compensation for stock options and warrants issued in the period
- the unrealized loss on marketable securities that were received as part of the Auxly investment in the Company, for which the market price declined in the period
- The balance of the loss is related to the costs of operations of Spirit Leaf, where the revenue for the period of has been deferred, until the store front franchises are opened.

Revenue for the quarter ended March 31, 2018 was lower for the prior quarter, as a result of the seasonality of retail business, where sales typically fall after the holiday season. Revenue was mainly attributable to the revenue from Watch It, which totaled $980,774. Total expenses for the period were $2,420,451, of which $521,393 was cost of goods sold. The balance of expenses was made up of the following: salaries and wages of $544,937, occupancy costs of $208,878, sales and marketing of $96,411, general and administration of $329,804, share-based compensation of $151,635, unrealized loss on marketable securities of $479,928, interest of $10,913, and royalties of $5,040.

The larger loss in the 1st quarter of 2018 was attributable to a number of factors:

- share-based compensation for stock options and warrants issued in the period
- the unrealized loss on marketable securities that were received as part of an investment in the Company, for which the shares were subject to a hold period, and the market price declined in the period
- Watch It had lower sales due to the seasonality of lower retail sales after the holiday season.
- The balance of the loss is related to the costs of operations of Spirit Leaf, where the revenue for the period of has been deferred, until the store front franchises are opened.

Fourth Quarter Results

Results for the fourth quarter, ending December 31, 2017, of the Company for selected financial statement amounts is as follows:

Total revenue of $1,895,382 was mainly attributable to the retail sales of Watch It, which had revenue of $1,813,423. Watch It royalty revenue was $63,958, and the balance of $18,001 of revenue was from other miscellaneous revenue.

Total expenses for the period were $2,276,760, of which $1,052,398 was cost of goods sold. The balance of expenses was made up of the following: salaries and wages of $536,512, occupancy costs of $276,777, sales and marketing of $102,516, and general and administration of $308,557. The loss of $381,378 in the 4th quarter of 2017 was mainly attributable to the costs of operations of Spirit Leaf, where the revenue for the period of has been deferred, until the store front franchises are opened.

General and Administration Expenses

The Company's general and administrative expenses for the period ended June 30, 2018, was $821,107 (2017 – $48,132), which consisted of professional fees of $425,070 (2017 – $38,058), filing fees of $65,725 (2017 – $nil), travel expenses of $48,377 (2017 – $nil), investor relations of $36,887 (2017 - $nil), insurance of $29,712 (2017 – nil) and other expenses of $215,335 (2017 – $10,074). The general and administration expenses were lower in the prior quarter as a result of there being limited operations as the Company was in the process of being set up, (as it was recently incorporated in March 16, 2017), and had not yet acquired the Watch It operations as of yet.

Future general and administrative fees will likely increase as the Company commences the building its franchise stores for Spirit Leaf.

Income Taxes

Presently, the Company does not expect to pay current taxes into the foreseeable future based on existing tax pools, planned capital activities and current forecasts of taxable income. However, the current tax horizon will ultimately depend on several factors including future operations, corporate expenses, and both the type and amount of capital expenditures incurred during in future reporting periods.

Liquidity

During the period ended June 30, 2018, the Company's cash flow used in operating activities was $1,944,811 (2017 – $241,449).

For the period ended June 30, 2018, the Company's cash flows provided by financing activities were $2,508,419 (2017 – $623,353). Net proceeds from share subscriptions accounted for $3,101,560 (2017 – $623,353) and $593,141 (2017 – $nil) was used to pay off the shareholder loan.

For the period ended June 30, 2018, the Company's cash flows used in investing activities were $442,334 (2017 - $nil) from the acquisition of property and equipment.

Outlined below is a breakdown of the Company's contractual obligations.

		Payments Due by Period			
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	795,750	795,750	-	-	-
Unredeemed gift card liability	159,005	159,005	-	-	-
Lease obligations (1)	4,986,542	804,194	1,462,210	1,062,756	1,657,382

1. Lease obligations due in future years

Commitments

As at June 30, 2018, there are no commitments for capital expenditures other than as outlined under the commitments note on the audited financial statements for the period ended December 31, 2017. These contractual obligations, which consist of operating leases for office and retail space, will be funded from the Company's current funds on hand and through funds from future operations.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Parties

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. 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).

Outstanding Share Data

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

As at June 30, 2018, the Company had 125,882,353 Class A Common voting shares for a paid in capital amount of $9,821,986, net of share issuance costs.

During the period ended June 30, 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.

During the period ended June 30, 2018, the Company granted a total of 6,411,765 warrants. The warrants were granted for consulting services, security for leases, and also for the Sugarbud and Auxly investments.

The following details the share capital structure as of the date of this MD&A.

	Expiry Date	Exercise Price	Number
Common shares			125,882,353
Stock options	February 28, 2023	$0.10	9,125,000
Warrants	December 31, 2019	$ 0.10	400,000
Warrants	December 31, 2019	$ 0.10	100,000
Warrants	April 3, 2023	$ 0.10	500,000
Warrants	April 3, 2023	$ 0.10	300,000
Warrants	May 11, 2020	$ 0.10	100,000
Warrants	May 11, 2020	$ 0.15	600,000
Warrants	June 22, 2020	$ 0.30	3,750,000
Warrants	June 22, 2020	$ 0.30	661,765
Fully diluted			141,419,118

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.
   - 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 Loss and Comprehensive 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 income (loss) and comprehensive income (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 income (loss) and comprehensive income (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 & accrued liabilities	Other liabilities	Amortized cost
Payable to shareholder	Other liabilities	Amortized cost
Royalty debt	Other liabilities	Amortized cost

Accounting Pronouncements Not Yet Adopted

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.

Critical Accounting Estimates

A summary of the Company's significant accounting policies is contained in Note 2 to the audited financial statements as at and for the period ended December 31, 2017. These accounting policies are subject to estimates and key judgments about future events, many of which are beyond the Company's control.

The following is a discussion of the accounting estimates that are critical to the Financial Statements.

Use of estimates and judgments:

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:

Judgements:

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.

Business Combination

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 Company was deemed to be the accounting acquirer, as per paragraphs B13 to B18 of IFRS 3. The following criteria was used to determine that the Company was the acquirer.

- B13: The Company obtained control of Watch It, as per the guidance in IFRS 10 Consolidated Financial Statements.
- B14: The Company transferred cash and incurred liabilities in the acquisition of Watch It by paying certain amounts to creditors of Watch It and assuming over other debt of Watch It.
- B15: The Company acquired Watch It by issuing equity interests
    a) The Company issued 27,345,516 common shares for the acquisition of Watch It, which was less 100% of the outstanding equity of the Company, thus it was not a reverse takeover. The total shares outstanding after the acquisition was 63,586,105.
    b) The Company still had the largest minority voting interest in the combined entity. After the acquisition, the Company maintained the largest portion of the voting rights of the combined entity.
    c) The Company maintained the majority control of the board, as no new board members were appointed upon the acquisition.
    d) The Company's senior management remained the same after the business combination.
    e) The Company paid a premium over the fair value in the acquisition, which result goodwill of over $2 million.
- B16: The Company relative size was larger than Watch It based on net assets.
- B17: The Company initiated the acquisition and the relative size of the Company was larger than Watch It based on the size of the net assets, management, and employees.

Franchise Fee Deposits

Franchise fee deposits consists of non-refundable deposits made by the franchisees to the Company pursuant to the franchise agreements.

It is the Company's policy to record non-refundable deposits, that have been received, as deferred revenue on the balance sheet rather than revenue on the income statement, since there are performance obligations to be met by the Company before these amounts can be recorded as revenue. The obligations upon the Company to be able to realize the revenue from franchise fees are to successfully open a store for the franchisee. Upon the store being opened, the deferred revenue will then be recorded as revenue.

It is also the Company's policy not to record any accounts receivable for any deposits not received but owing from franchisees, since these receivables would be equally offset by the deferred revenue liability.

Share-based compensation

Compensation costs accrued for share-based compensation plans are subject to the estimation of the ultimate payout using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.

Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to credit risks, market risks, and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The Company does not have any hedges in place.

a) 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.

Management assesses quarterly if there should be any impairment of the financial assets of the Company. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of cash and receivables.

b) 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 $246,195 before tax. An equal change in the opposite direction would have decreased equity by $246,195 before tax.

Market risk is comprised of three components: commodity price risk, currency risk and interest rate risk.

- Commodity Price Risk
  The Company is currently not subject to commodity price risk for the sale of its products. In the future, the Company may enter into contracts for risk management purposes only, in order to protect a portion of its future cash flow from the potential volatility of product prices. To date the Company has not entered into any forward commodity contracts.

- Foreign Currency Exchange Risk
  The Company principally operates in Canada and the majority of its transactions are incurred in Canada and is therefore not exposed to significant currency fluctuations denominated in currencies other than the Canadian dollar, the Company's functional currency. The Company's other financial assets and liabilities are not directly affected by a change in currency rates.

- Interest Risk
  Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. Assuming all other variables remain constant, a 1% increase or decrease in interest rates would have impacted the cash flows of the Company during the period ended June 30, 2018 by approximately $nil.

  Fair Value of Financial Instruments

  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.

  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).

  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 is classified as level 2. During the period ended June 30, 2018, there were no transfers of amounts between levels.

c) Liquidity Risk
   Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:
   - The Company will not have sufficient funds to settle a transaction on the due date;
   - The Company will be forced to sell financial assets at a value which is less than what they are worth; or
   - The Company may be unable to settle or recover a financial asset.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, cost overruns on capital projects and regulations relating to prices, taxes, royalties, and availability of markets. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing.

ADDITIONAL INFORMATION

Additional information pertaining to the Company is available on the SEDAR website at www.sedar.com.