Inner Spirit Holdings Ltd.

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

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

	Note		September 30 2018		December 31 2017
			(Unaudited)		(Audited)
ASSETS					
Current					
Cash		**$**	**4,629,475**	$	953,055
Accounts receivable			**251,867**		87,101
Marketable securities	5		**2,514,204**		-
Prepaid investment subscription	5		**146,997**		-
Prepaid expenses and deposits			**87,389**		91,982
Inventory	6		**2,867,534**		680,430
Total current assets			**10,497,466**		1,812,568
Non-current					
Property and equipment	7		**1,361,091**		1,001,146
Lease deposits			**348,383**		8,000
Goodwill	8,9		**2,078,018**		2,078,018
Franchise agreements	8,9		**437,500**		475,000
Trademarks	8,9		**530,000**		530,000
Store permits	9		**479,360**		-
Total assets		**$**	**15,731,818**	$	5,904,732
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Accounts payable and accrued liabilities		**$**	**1,794,996**	$	539,774
Payable to shareholder	13		**-**		593,141
Unredeemed gift card liability			**151,233**		76,472
Total current liabilities			**1,946,229**		1,209,387
Non-current					
Franchise fee deposits	10		**1,176,100**		460,100
Royalty debt	11		**-**		1,000,000
Deferred revenue	5		**1,305,055**		-
Total liabilities			**4,427,384**		2,669,487
Shareholders' Equity					
Share capital	12		**14,657,273**		3,420,871
Share subscriptions	12		**-**		1,149,556
Contributed surplus	12(c)		**292,323**		-
Warrants	12(e)		**1,923,324**		-
Deficit			**(5,568,486)**		(1,335,182)
Total shareholders' equity			**11,304,434**		3,235,245
Total liabilities and shareholders' equity		**$**	**15,731,818**	$	5,904,732

Nature of Operations and Going Concern (Note 1)
Subsequent Events (Note 16)

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 Nine Months Ended September 30, 2018 and Three and Seven Months Ended September 30, 2017

	Note	Three months ended September 30 2018	2017	Nine months ended September 30 2018	Seven months ended September 30 2017
Revenue					
Retail revenue		**$ 1,133,625**	$ 988,626	**$ 3,222,783**	$ 988,626
Royalties		**38,637**	46,648	**116,233**	46,648
Advertising		**11,484**	12,711	**30,883**	12,711
Millwork and miscellaneous		**361,033**	4,496	**410,027**	4,496
Total revenue		**1,544,779**	1,052,481	**3,779,926**	1,052,481
Cost of goods sold	6	**910,930**	514,157	**2,067,721**	514,157
Gross profit		**633,849**	538,324	**1,712,205**	538,324
Operating expenses					
General and administrative		**557,976**	237,011	**1,387,482**	430,145
Salaries, wages, and benefits		**647,969**	387,378	**1,835,343**	392,378
Occupancy costs		**332,426**	174,499	**814,025**	174,499
Depreciation and amortization	7,9	**109,813**	57,887	**259,711**	57,887
Sales and marketing		**174,683**	10,961	**400,560**	106,752
Total operating expenses		**1,822,867**	867,736	**4,697,121**	1,161,661
Operating loss before other expenses		**(1,189,018)**	(329,412)	**(2,984,916)**	(623,337)
Share-based compensation	12(c)	**28,949**	-	**292,323**	-
Unrealized loss (gain) on marketable securities	5	**(277,658)**	-	**939,805**	-
Interest expense	13	**296**	17,580	**11,220**	17,580
Royalty expense	11	**-**	26,882	**5,040**	26,882
			-		
Net loss and comprehensive loss		**$ (940,605)**	$ (373,874)	**$ (4,233,304)**	$ (667,799)
Net loss per share					
- basic		**$ (0.01)**	$ (0.01)	**$ (0.03)**	$ (0.02)
- diluted		**$ (0.01)**	$ (0.01)	**$ (0.03)**	$ (0.02)
Weighted average shares outstanding					
- basic		**157,219,182**	41,823,519	**123,919,565**	41,823,519
- diluted		**157,219,182**	41,823,519	**123,919,565**	41,823,519

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 Nine Months Ended September 30, 2018 and
the Seven Months Ended September 30, 2017

	Note	Share Capital Number	Share Capital Amount	Share Subscriptions	Contributed Surplus	Warrants	Deficit	Total
Balance, at incorporation		-	-	$ -	$ -	-	$ -	$ -
Issuance of founders shares	12	14,300,000	13,000	-	-	-	-	13,000
Private placements		21,940,589	832,439	-	-	-	-	832,439
Watch It! acquisition		27,345,516	2,485,956	-	-	-	-	2,485,956
Amalgamation with 204AB		1,500,000	45,000	-	-	-	-	45,000
Private placement		860,000	86,000	-	-	-	-	86,000
Share issuance costs		-	(41,524)	-	-	-	-	(41,524)
Net loss and comprehensive loss		-	-	-	-	-	(667,799)	(667,799)
Balance, September 30, 2017		65,946,105	3,420,871	$ -	$ -	-	$ (667,799)	$ 2,753,072
Balance, December 31, 2017		65,946,105	3,420,871	$ 1,149,556	$ -	-	$(1,335,182)	$ 3,235,245
Debt conversion	**11,12(b)**	**10,000,000**	**1,000,000**	**-**	**-**	**-**	**-**	**1,000,000**
Private placements	**12(b)**	**23,553,895**	**2,355,390**	**(1,149,556)**	**-**	**-**	**-**	**1,205,834**
Initial public offering	**12(b)**	**25,000,000**	**2,974,320**	**-**	**-**	**775,680**	**-**	**3,750,000**
Corporate investments	**12(b)**	**48,441,177**	**5,299,254**	**-**	**-**	**963,102**	**-**	**6,262,356**
Acquisition of franchisee	**12(b)**	**1,333,334**	**400,000**	**-**	**-**	**79,360**	**-**	**479,360**
Exercise of warrants	**12(b)**	**150,000**	**15,000**	**-**	**-**	**-**	**-**	**15,000**
Exercise of options	**12(b)**	**60,000**	**6,000**	**-**	**-**	**-**	**-**	**6,000**
Service warrants	**12(e)**	**-**	**-**	**-**	**-**	**75,500**	**-**	**75,500**
Agent warrants		**-**	**-**	**-**	**-**	**213,334**	**-**	**213,334**
Share issuance costs	**12**	**-**	**(813,562)**	**-**	**-**	**(183,652)**	**-**	**(997,214)**
Share-based compensation	**12(c)**	**-**	**-**	**-**	**292,323**	**-**	**-**	**292,323**
Net loss and comprehensive loss		**-**	**-**	**-**	**-**	**-**	**(4,233,304)**	**(4,233,304)**
Balance, September 30, 2018		**174,484,511**	**14,657,273**	**$ -**	**$ 292,323**	**1,923,324**	**$(5,568,486)**	**$11,304,434**

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

Inner Spirit Holdings Ltd.
Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in Canadian Dollars)
For the Nine Months Ended September 30, 2018 and
the Seven Months Ended September 30, 2017

			Nine months ended September 30, 2018		Seven months ended September 30, 2017
Cash provided by (used in) the following activities:					
Operating					
Net loss for the period		$	(4,233,304)	$	(667,799)
Items not affecting cash					
Amortization and depreciation	7,9		259,711		57,887
Share-based compensation	12(c)		292,323		-
Unrealized loss on marketable securities	5		939,805		-
Changes in non cash working capital balances:					
Change in accounts receivable			(164,764)		(350,384)
Change in prepaids and deposits			4,594		(86,964)
Change in inventory	6		(2,187,104)		33,903
Change in accounts payable and accrued liabilities			1,255,222		339,453
Change in unredeemed gift card liability			74,761		-
Change in lease deposits			(340,383)		-
Change in franchise fee deposits	10		716,000		475,312
Cash flow used in operating activities			(3,383,139)		(198,592)
Financing					
Issuance of share capital, net of issuance costs	12		6,906,853		889,915
Payable to shareholder	13		(593,141)		40,155
Cash flow provided by financing activities			6,313,712		930,070
Investing					
Investment in Auxly			350,000		-
Investment in Newstrike			1,125,000		-
Investment in prepaid share subscription	5		(146,997)		-
Acquisition of property and equipment	7		(582,156)		(2,518)
Acqusition of Watch It!	8		-		(639,769)
Cash flow provided by (used in) financing activities			745,847		(642,287)
Change in cash			3,676,420		89,191
Cash, beginning of period			953,055		-
Cash, end of period		$	4,629,475	$	89,191

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 four wholly-owned subsidiaries, Spirit Leaf Inc., Spirit Leaf Corporate Inc., and Spirit Leaf Macleod Inc. ("Spirit Leaf"), which has the primary business of the sale of franchise cannabis dispensaries across Canada 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. During the nine months ended September 30, 2018, the Company had not yet achieved profitable operations, incurred a net loss of $4,233,304 and, as of that date, the Company has an accumulated deficit of $5,568,486. 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 financing its capital requirements and achieving profitable operations.

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 on 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 November 29, 2018.

Basis of measurement

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

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

Basis of consolidation

The Financial Statements include the accounts of Inner Spirit Holdings Ltd., Spirit Leaf Inc., Spirit Leaf Corporate Inc., Spirit Leaf Macleod Inc., and Watch It! Consolidated Ltd., 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.

Option and Warrants

The fair value of stock options and warrants granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company's share price on the measurement date, the exercise price of the option, the expected volatility of the Company's shares, the expected life of the options, expected dividends and the risk-free rate of return. The Company estimates volatility based on the historical share price in the publicly traded markets. The expected life of the options is based on historical experience and estimates of the holder's behavior. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options that will be forfeited, and the rate is adjusted to reflect the actual number of options that actually vest.

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

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

Estimate on share-based compensation & warrants
The Company issues warrants and stock options to directors, officers and other consultants. The fair value of warrants and options granted is measured at the grant date, using the Black-Scholes option pricing model, and, for options, is recognized over the vesting period. The fair value of warrants is recognized as a reduction to share capital with a corresponding increase to warrants where units are issued. The fair value of options is recognized as compensation expense with a corresponding increase in contributed surplus. A forfeiture rate is estimated on the grant date based on historical forfeitures and is adjusted to reflect the actual number of options that vest. When stock options are exercised, the fair value of the exercised options are derecognized from contributed surplus and recognized in share capital. When warrants are exercised, the fair value of the exercised warrants are derecognized from warrants and recognized in share capital.

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 condensed 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.

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

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 condensed 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 condensed 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	Fair value through profit and loss	Fair value through profit and loss
Accounts receivable	Loans and receivables	Amortized cost
Marketable securities	Fair value through profit and loss	Fair value through profit and loss
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Payable to shareholder	Other liabilities	Amortized cost
Royalty debt	Other liabilities	Amortized cost

IFRS 15, Revenue from contracts with customers
On May 28, 2014 the IASB issued IFRS 15, "Revenue from contracts with customers". IFRS 15 replaced existing standards and interpretations on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018. The standard outlines a single comprehensive model for entities for revenue recognition arising from contracts with customers.

The Company has completed its evaluation of the impact of IFRS 15 on its Financial Statements. The Company's practices of revenue recognition are unchanged upon adoption of this standard, therefore, the adoption of IFRS 15 did not result in a material impact to the Financial Statements. The Company has elected to apply the standard on a modified retrospective basis.

Under this approach, the 2017 comparative period was not restated. There was no cumulative transitional adjustment to the opening retained earnings balance required.

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.

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

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 September 30, 2018, is $11,304,432 (December 31, 2017 - $3,235,245).

4. FINANCIAL INSTRUMENTS AND RISK FACTORS

Fair values
At September 30, 2018, the Company's financial instruments consist of cash, marketable securities, accounts receivable, accounts payable and accrued liabilities, payable to shareholder, and royalty debt. 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. The fair value of the payable to shareholder and royalty debt are estimated using a discount cashflow valuation technique.

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).

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's ended September 30, 2018 and 2017, there were no transfers of amounts between levels.

4. FINANCIAL INSTRUMENTS AND RISK FACTORS (CONTINUED)

The Company has exposure to the following risks from its use of financial instruments:
- Credit risk;
- Liquidity risk; and,
- 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, royalty revenue receivable from the franchises from the previous month, and receivable from franchise for millwork, 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 September 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, and payable to shareholder.

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 $481,390 before tax. An equal change in the opposite direction would have decreased equity by $481,390 before tax.

5. MARKETABLE SECURITIES

i. 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; (ii) issuing to the Company 674,418 common shares in the capital of Auxly; 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.

   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%, and (b) stock price volatility of 110%.

   The Company has allocated $1,305,055 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).

5. MARKETABLE SECURITIES (CONTINUED)

As at September 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 September 30, 2018, Auxly shares and the Auxly warrants were marked down to fair market value based on the closing Auxly stock price on that date. The Auxly warrants were marked down to fair market value based on the Black Scholes model using with the following assumptions, (a) risk free interest rate of 2.19%, and (b) stock price volatility of 92.47%.

	Auxly Shares	Auxly Warrants	Total
Fair market value, February 6, 2018	$ 1,267,906	$ 1,187,149	$ 2,455,055
Unrealized loss	(492,325)	(892,173)	(1,384,498)
Fair market value, September 30, 2018	$ 775,581	$ 294,976	$ 1,070,557

ii. On July 31, 2018 the Company closed its investment agreement with Newstrike Brands Ltd. ("Newstrike"), 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 issued at closing at a price of $0.90. Newstrike has also issued 1,125,000 warrants to purchase Newstrike common shares at 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.

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. The Company recorded these equity instruments at the fair value of consideration received.

As at July 31, 2018, the Newstrike warrants were valued using the Black Scholes model, with the following assumptions, (a) risk free interest rate of 2.05%, and (b) stock price volatility of 139%.

As at September 30, 2018, Newstrike shares were marked down to fair market value based on the closing Newstrike stock price on that date. The Newstrike warrants were marked down to fair market value based on the Black Scholes model using with the following assumptions, (a) risk free interest rate of 2.05%, (b) stock price volatility of 199% and the closing Newstrike stock price.

	Newstrike Shares	Newstrike Warrants	Total
Fair market value, July 31, 2018	$ 637,500	$ 361,454	$ 998,954
Unrealized gain	262,500	182,193	444,693
Fair market value, September 30, 2018	$ 900,000	$ 543,647	$ 1,443,647

5. MARKETABLE SECURITIES (CONTINUED)

iii. 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, on June 22, 2018, the Company issued 7,500,0000 common shares at a price of $0.15 per share to Sugarbud and 3,750,000 warrants of the Company, in exchange for $1,125,000 in cash as part of their investment agreement. The common share purchase warrants entitle Sugarbud to purchase common shares of the Company at $0.30 per share at any time prior to June 22, 2020. The Investment Agreement also contemplated a second closing (the "Second Closing") involving the issuance by Sugarbud of $1,125,000 in Sugarbud common shares and 1,125,000 common share purchase warrants 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 Second Tranche is subject to certain conditions including entering into of a strategic alliance agreement and TSX Venture Exchange approval for the issuance of the Sugarbud securities. The timing of the closing of the Second Tranche has not yet been determined as the Company and Sugarbud continue to negotiate the terms of a strategic alliance agreement (as described in the Investment Agreement) which is a condition to closing the second tranche.

iv. During the period ended September 30, 2018, the Company made a prepaid subscription of US$110,000 ($146,997 Canadian) in an investment in Hightimes Holding Corp.("Hightimes"). Subsequent to the period ended September 30, 2018, the Company entered into a subscription agreement for 10,000 shares in Hightimes at a price of $US11 per share.

6. INVENTORY

Inventory consists of merchandise on hand in the amount of $1,246,166 as at September 30, 2018 (December 31, 2017 - $680,430) and inventory relating to millwork for the Spirit Leaf franchises of $1,621,368 (December 31, 2017 - $nil). 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 relating to merchandise sold was $1,755,891 for the nine months ended September 30, 2018 (seven months ended September 30, 2017 - $514,157). The cost of inventory recognized as an expense and included in cost of sales relating to millwork sold to franchises was $311,830 for the nine months ended September 30, 2018 (seven months ended September 30, 2017 - $nil).

7. PROPERTY AND EQUIPMENT

Cost	Computer Equipment	Furniture and Fixtures	Vehicle	Leasehold Improvements	Total
December 31, 2017	$ 14,618	$ 277,531	$ -	$ 815,240	$ 1,107,389
Additions	**19,980**	**187,684**	**27,557**	**346,935**	**582,156**
September 30, 2018	**$ 34,598**	**$ 465,215**	**$ 27,557**	**$ 1,162,175**	**$ 1,689,545**
Accumulated depreciation					
December 31, 2017	$ (5,516)	$ (25,707)	$ -	$ (75,020)	$ (106,243)
Depreciation for the period	**(7,304)**	**(49,992)**	**(2,985)**	**(161,930)**	**(222,211)**
September 30, 2018	**$ (12,820)**	**$ (75,699)**	**$ (2,985)**	**$ (236,950)**	**$ (328,454)**
Net book value					
December 31, 2017	$ 9,102	$ 251,824	$ -	$ 740,220	$ 1,001,146
September 30, 2018	**$ 21,778**	**$ 389,516**	**$ 24,572**	**$ 925,225**	**$ 1,361,091**

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.

The acquisition of Watch It was calculated as follows:

		15-Jul-17
Consideration:		
27,345,516 Class A Common Shares at $0.0909 per share	$	2,485,956
Loan from Inner Spirit Inc.		298,000
Cash		174,342
Total consideration	**$**	**2,958,298**
Assets (liabilities) acquired:		
Working capital	$	580,385
Property and equipment		1,098,572
Franchise agreements		500,000
Trademarks		530,000
Goodwill		2,078,018
Payable to shareholder		(566,752)
Royalty debt		(1,000,000)
Other debt		(198,425)
Deferred tax liability		(63,500)
Net assets acquired	**$**	**2,958,298**

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	Store Permits	Total
Beginning, March 16, 2017	$ -	$ -	$ -	$ -	$ -
Acquired in business combination (Note 8)	$2,078,018	$ 500,000	$ 530,000	$ -	$3,108,018
December 31, 2017	$2,078,018	$ 500,000	$ 530,000	$ -	$3,108,018
Acquired during the period	**$ -**	**$ -**	**$ -**	**$479,360**	**$ 479,360**
September 30, 2018	**$2,078,018**	**$ 500,000**	**$ 530,000**	**$479,360**	**$3,587,378**
Accumulated amortization					
Beginning, March 16, 2017	$ -	$ -	$ -	$ -	$ -
Amortization for the period	$ -	$ (25,000)	$ -	$ -	$ (25,000)
December 31, 2017	$ -	$ (25,000)	$ -	$ -	$ (25,000)
Amortization for the period	**$ -**	**$ (37,500)**	**$ -**	**$ -**	**$ (37,500)**
September 30, 2018	**$ -**	**$ (62,500)**	**$ -**	**$ -**	**$ (62,500)**
Net book value					
December 31, 2017	$2,078,018	$ 475,000	$ 530,000	$ -	$3,083,018
September 30, 2018	**$2,078,018**	**$ 437,500**	**$ 530,000**	**$479,360**	**$3,524,878**

During the period ended, September 30, 2018, the Company, through their wholly-owned subsidiary Spiritleaf Corporate Inc., entered into an agreement with an arm's length party to purchase a permit towards a provisionally approved recreational cannabis dispensary in the Beltline area of Calgary, Alberta. Total consideration to acquire the assets and the territory was $400,000 through the issuance of 1,333,334 Inner Spirit common shares based on a deemed price of $0.30 per share.

During the period ended, September 30, 2018, the Company, through their wholly-owned subsidiary Spiritleaf Corporate Inc., entered into an agreement with an arm's length party to purchase a permit towards a provisionally approved recreational cannabis dispensary in the Whyte Avenue area of Edmonton, Alberta. Total consideration to acquire the assets and the territory was the issuance of 360,500 warrants to purchase shares in the Company at a price of $0.28 per share for a period of two years. The value of the warrants was $79,360 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 2.14%, and (b) share price volatility of 109%.

The purchase of these provisionally approved recreational cannabis dispensaries were accounted for as intangible asset acquisitions as the transactions did not meet the definition of a business combination and have been recorded as Store permits on the interim condensed consolidated statements of financial position.

The Company concluded that there were no indicators of impairment as at September 30, 2018, therefore an impairment test was not performed.

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 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
Balance as of December 31, 2017	$ 460,100	$ -	$ 460,100
New franchisees	**55,000**	**726,000**	**781,000**
Terminated franchises	**(25,000)**	**(20,000)**	**(45,000)**
Franchise fees recognized	**(20,000)**	**-**	**(20,000)**
Balance as at September 30, 2018	**$ 470,100**	**$ 706,000**	**$ 1,176,100**

The refundable portion of the franchise fees are deposited into a savings bank account, which is segregated from the Company's operating bank accounts. These are classified as long term as repayment is at the option of the Company.

As at September 30, 2018, there was an aggregate of $494,000 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 September 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 nine months ended September 30, 2018, the Company recorded total royalty expense of $5,040 (seven months ended September 30, 2017 - $26,882). On January 18, 2018, the royalty debt was repaid through the issuance of shares (Note 12(b)(v)).

12. SHARE CAPITAL

(a) Authorized:

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

(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, viii)		**2,355,390**
Debt conversion (Note v)		**1,000,000**
Initial public offering (Note xi)		**2,974,320**
Corporate investments (Note vi, vii, ix, x, xii, xiii)		**5,299,254**
Franchisee acquisition (Note xiv)		**400,000**
Warrant exercise (Note xv)		**15,000**
Option exercise (Note xvi)		**6,000**
Share issuance costs		**(813,562)**
Balance, September 30, 2018	**$**	**14,657,273**

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.

12. SHARE CAPITAL (CONTINUED)

iv. On January 18, 2018, and February 5, 2018, the Company completed a private placement by issuing 17,553,895 Common voting shares at a price of $0.10 for gross proceeds of $1,755,390. Of these total proceeds, $1,149,556, was received prior to year-end, and was recorded as share subscriptions.
v. On January 18, 2018, the Company issued 10,000,000 Common voting shares at a price of $0.10 to Grenville pursuant to termination of their royalty agreement with Watch It! (Note 11).
vi. On February 6, 2018, the Company issued 15,000,000 Common voting shares to Auxly at a price of $0.10 per share as part of the investment agreement entered into with for Auxly (Note 5(i)).
vii. On February 6, 2018, and March 27, 2018, the Company issued 2,558,824 Common voting shares to Auxly at $0.10 per share in consideration for cash consideration of $255,882 pursuant to the Auxly Anti-Dilution Right (Note 5(i)).
viii. On March 27, 2018, the Company completed a private placement by issuing 6,000,000 Common voting shares at a price of $0.10 for gross proceeds of $600,000.
ix. On June 22, 2018, the Company issued 7,500,0000 common shares at a price of $0.15 per share to Sugarbud Craft Growers Corp. and 3,750,000 warrants of the Company, in exchange for $1,125,000 in cash as part of their investment agreement. The common share purchase warrants entitle Sugarbud to purchase common shares of the Company at $0.30 per share at any time prior to June 22, 2020 (Note 5(i)).
x. On June 22, 2018, pursuant to the exercise of the Auxly Anti-Dilution Right (Note 5(i)), the Company issued 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 at any time prior to June 22, 2020.
xi. 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, 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.
xii. On July 31, 2018 the Company issued Newstrike 15,000,000 units of the Company at a price of $0.15 per Unit as part of their investment agreement. 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 (Note 5(ii)).
xiii. On July 31, 2018, pursuant to the exercise of the Auxly Anti-Dilution right (Note 5(i)), the Company issued 7,058,824 units at a price of $0.15 per unit, for gross proceeds of $1,058,823.
xiv. On September 24, 2018, the Company, issued 1,333,334 Common voting shares at a deemed price of $0.30 per share for consideration of one of the Spirit Leaf stores (Note 9).
xv. During the period ended September 30, 2018, a total of 150,000 shares were issued based on warrant exercises at a price of $0.10 per share.
xvi. During the period ended September 30, 2018, a total of 60,000 shares were issued based on option exercises at a price of $0.10 per share.

(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 unexercised vested options was determined to be $292,323 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.

12. SHARE CAPITAL (CONTINUED)

(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.

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

	Number of Options		Weighted Average Exercise Price
Balance, December 31, 2017	-	$	-
Issued during period	**9,125,000**	**$**	**0.10**
Exercised during period	**60,000**	**$**	**0.10**
Forfeited during period	**80,000**	**$**	**0.10**
Balance, September 30, 2018	**8,985,000**	**$**	**0.10**
Exercisable, end of period	**2,246,250**	**$**	**0.10**

Number Outstanding	Exercise Price	Weighted Average Remaining Contractual Life	Date of Expiry	Exercisable
8,985,000	**$0.10**	**4.42 years**	**February 28, 2023**	**2,246,250**

(e) Warrants

During the nine months ended September 30, 2018, the Company issued a total of 32,751,677 warrants for consulting services, security for leases, investments, and the initial public offering. The fair value of these warrants is $2,290,628 net of share issue costs of $183,652. Included in the total warrants issued, there was 2,100,000 warrants relating to consulting services and security for leases with a fair value of $75,500. The value of the warrants 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% to 2.18% (b) share price volatility of 108% to 116%, and (c) 1.5-5 year expected life of warrants.

12. SHARE CAPITAL (CONTINUED)

	Number of Warrants		Exercise Price	Expiry Date
Balance, December 31, 2017	-	$	-	
Issued for services	**1,400,000**	**$**	**0.10**	**31-Dec-19 to 03-Apr-23**
Issued for services	**600,000**	**$**	**0.15**	**11-May-20**
Sugarbud investment (Note 12(x))	**3,750,000**	**$**	**0.30**	**22-Jun-20**
Auxly investment (Note 12(xi))	**661,765**	**$**	**0.30**	**22-Jun-20**
Initial public offering warrants (Note 12(xii))	**12,500,000**	**$**	**0.30**	**01-Aug-20**
Agents broker warrants	**2,500,000**	**$**	**0.30**	**01-Aug-20**
Auxly investment (Note 12(xiv))	**3,529,412**	**$**	**0.30**	**01-Aug-20**
Newstrike investment (Note 12(xiii))	**7,500,000**	**$**	**0.30**	**01-Aug-20**
Acquisition of franchise location (Note 9)	**360,500**	**$**	**0.28**	**28-Aug-20**
Investor relation warrants	**100,000**	**$**	**0.30**	**23-Jul-20**
Exercised during period	**(150,000)**	**$**	**0.10**	
Balance, September 30, 2018	**32,751,677**			
Exercisable, end of period	**31,851,677**			

Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life
32,751,677	**$0.29**	**1.88 years**

Subsequent to the period ended, September 30, 2018, 100,000 warrants were exercised at a price of $0.10 per share.

13. RELATED PARTY TRANSACTIONS

Key management and director compensation

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company. Key management personnel include members of the Board of Directors, and executive officers. Compensation of key management personnel may include short-term and long-term benefits. Short-term benefits include salaries and consulting fees. Long-term benefits include stock options. Compensation provided to current key management are as follows:

	Nine months ended September 30, 2018	Seven months ended September 30, 2017
Short-term benefits	**$ 194,000**	$ 75,000
Long-term benefits	**57,000**	-
	$ 251,000	$ 75,000

(*) Consists of share-based payments as the fair value of options granted to key management personnel of the Company under the Company’s stock option plan.

13. RELATED PARTY TRANSACTIONS (CONTINUED)

As at September 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 nine months ended September 30, 2018, the Company paid rent for office space to a company related by virtue of common ownership, in the amount of $33,277 (seven months ended September 31, 2017 - $26,551). The lease expired on March 31, 2018 but is continuing on a month to month basis. The rent for this office space was $3,793 per month, up to June 2018, and then adjusted to $3,506 per month, including parking, which is at fair market value.

As at 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 September 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 nine months ended September 30, 2018 (seven months ended September 31, 2017 - $17,580).

14. COMMITMENTS

The Company leases several retail outlets under operating leases expiring between 2018 and 2028, some of which are subleased for the full amount of the lease payments and some of which are used for the operations of its corporate stores. The Company also guarantees leases for several franchised retail outlets. If the franchisees defaulted on the lease payments, the Company would be liable for these lease payments and the ongoing lease liability. All of the Company's leases for Spirit Leaf have a conditional termination clause that allows for the lease to be terminated with a pre-determined penalty in the event that the company is not able to secure a permit to sell cannabis at any particular location.

The Company has entered into and provided a covenant for various non-cancellable operating lease agreements. These lease agreements expire between December 31, 2019 and May 31, 2028.

As at September 30, 2018, the minimum annual lease payments for corporately operated locations are expected to be as follows:

	Watch It!	Spirit Leaf
2018	**$210,080**	**$73,920**
2019	**$595,617**	**$211,269**
2020	**$483,140**	**$214,253**
2021	**$269,091**	**$239,170**
2022	**$157,537**	**$222,261**
Thereafter	**$281,112**	**$660,552**

As at September 30, 2018, the minimum annual lease payments for franchise operated locations where the Company or its subsidiaries either sub-leased, assigned or provided a covenant for its franchisees are expected to be as follows. Payments are made directly to the landlord and the lease payment would only revert to the Company if a franchisee defaulted on their obligations under the terms of the sub-lease or lease.

	Watch It!	Spirit Leaf
2018	**$134,775**	**$13,846**
2019	**$488,224**	**$55,385**
2020	**$449,108**	**$55,385**
2021	**$411,869**	**$55,385**
2022	**$369,640**	**$55,385**
Thereafter	**$483,660**	**$36,923**

15. SEGMENTED INFORMATION

The Company is a holding company that operates in three segments through its four wholly-owned subsidiaries, (i) Spirit Leaf Inc. Spirit Leaf Corporate Inc., and Spirit Leaf Macleod Inc., which have the primary business of the sale of franchise cannabis dispensaries across Canada; (ii) 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, and (iii) Inner Spirit, a division for its corporate administration. All of the Company's assets are located in Canada.

Nine months ended September 30, 2018

	Watch It!	Spirit Leaf	Inner Spirit	Total
Revenue				
Retail revenue	$3,222,783	$ -	$ -	$ 3,222,783
Royalties	116,233	-	-	116,233
Advertising	30,883	-	-	30,883
Millwork and miscellaneous revenue	9,876	400,123	28	410,027
	3,379,775	400,123	28	3,779,926
Cost of goods sold	1,716,529	351,192	-	2,067,721
Gross profit	1,663,246	48,931	28	1,712,205
General and administrative	252,513	532,261	602,708	1,387,482
Salaries, wages, and benefits	1,074,759	552,622	207,962	1,835,343
Occupancy costs	644,658	169,367	-	814,025
Depreciation and amortization	211,343	48,076	292	259,711
Sales and marketing	54,444	256,018	90,098	400,560
Total operating expenses	2,237,717	1,558,344	901,060	4,697,121
Operating loss before other expenses	(574,471)	(1,509,413)	(901,032)	(2,984,916)
Share-based compensation	-	-	292,323	292,323
Unrealized loss on marketable securities	-	-	939,805	939,805
Interest	11,220	-	-	11,220
Royalties	5,040	-	-	5,040
Net loss and comprehensive loss	(590,731)	(1,509,413)	(2,133,160)	(4,233,304)
Total assets	$5,110,730	$3,963,552	$6,657,536	$15,731,818
Total liabilities	$ 570,755	$2,280,917	$1,575,712	$ 4,427,384

15. SEGMENTED INFORMATION (CONTINUED)

Seven months ended September 30, 2017	**Watch It!**	**Spirit Leaf**	**Inner Spirit**	**Total**
Revenue				
Retail revenue	$ 988,626	$ -	$ -	$ 988,626
Royalties	46,648	-	-	46,648
Advertising	12,711	-	-	12,711
Miscellaneous revenue	4,013	483	-	4,496
	1,051,998	483	-	1,052,481
Cost of goods sold	514,157	-	-	514,157
Gross profit	537,841	483	-	538,324
General and administrative	51,478	15,916	362,751	430,145
Salaries, wages, and benefits	176,582	85,796	130,000	392,378
Occupancy costs	168,875	5,624	-	174,499
Depreciation and amortization	57,887	-	-	57,887
Sales and marketing	20,970	63,108	22,674	106,752
Total operating expenses	475,792	170,444	515,425	1,161,661
Operating income (loss) before other expenses	62,049	(169,961)	(515,425)	(623,337)
Share-based compensation	-	-	-	-
Unrealized loss on marketable securities	-	-	-	-
Interest	17,580	-	-	17,580
Royalties	26,882	-	-	26,882
Net income (loss) and comprehensive loss	17,587	(169,961)	(515,425)	(667,799)
Total assets	$4,116,759	$ 359,428	$ 79,248	$ 4,555,435
Total liabilities	$2,308,158	$ 504,866	$ 213,648	$ 3,026,672

16. SUBSEQUENT EVENTS

Subsequent to the period ended, the Company, through a wholly-owned subsidiary Spiritleaf Corporate Inc., has entered into an agreement with an arm's length party to purchase all the assets of Indica Jasper Inc., constituting a substantially completed and provisionally approved recreational cannabis dispensary in the town of Jasper, Alberta. Total consideration to acquire the assets and the territory is $400,000 in cash and $40,000 through the issuance of 160,000 Inner Spirit common shares based on the market closing price of $0.25. The location will be converted and opened as a wholly-owned corporate Spirit Leaf location in the heart of Jasper. The Company also issued 100,000 common shares to its Jasper franchise partner to terminate their franchise agreement in connection with the transaction.