INNER SPIRIT HOLDINGS LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 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 November 29, 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; the continued availability of capital; the ability to obtain financing on acceptable terms; and the continuation of the current taxation and regulatory environment.

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 four business units which it operates through its four wholly-owned subsidiaries, Spirit Leaf Inc. ("Spirit Leaf"), Spirit Leaf Macleod Inc. ("Spirit Leaf Macleod"), Spirit Leaf Corporate Inc. ("Spirit Leaf Corporate) and Watch It! Consolidated Ltd. ("Watch It!"). The four business units are comprised of: (i) the business of Spirit Leaf, which is the franchise division of the cannabis business which collects initial franchise fees, royalties and sells supplies to support the opening of Spirit Leaf franchise cannabis dispensaries initially in Alberta, British Columbia, and Saskatchewan, and in Ontario pending legalization by the Ontario Provincial government. (ii) Spirit Leaf Macleod is a joint venture company with 101805 Alberta Ltd. that intends to open 3 Spirit Leaf dispensaries in Calgary, Alberta (iii), Spirit Leaf Corporate which plans to open at least 3 wholly owned corporate dispensaries with one of each in Calgary, Edmonton and Jasper, Alberta (iv) 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 operates an online business to sell cannabis consumer products and plans to develop its own cannabis branded products which it anticipates to sell and distribute through the proposed owned and franchised dispensaries. All four divisions were incorporated under the laws of the Province of Alberta, are headquartered in Calgary, Alberta and extra-provincially registered in the various provinces in which they operate.

Subsequent Events and Proposed Transactions

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

Subsequent to the period ended September 30, 2018, 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 per share. 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 at a deemed price of $0.25 per share to its Jasper franchise partner to terminate their franchise agreement in connection with the transaction.

Additionally, 3 final licenses to operate recreational cannabis dispensaries were granted to Spirit Leaf franchisee locations in Alberta, and a final license to operate a recreational cannabis dispensary was granted to Spirit Leaf in Saskatchewan.

Subsequent to the period ended September 30, 2018, Alberta Gaming, Liquor and Cannabis ("AGLC") issued a temporary suspension on the issuance of cannabis retail licenses. While the temporary suspension remains in place, neither Spirit Leaf nor the franchisees of Spirit Leaf are able to submit applications for, or in the case of cannabis retail license applications that were in progress prior to the enactment of the temporary suspension, receive final approval for, cannabis retail licenses to operate retail cannabis stores in the Province of Alberta. As at the date hereof, the AGLC has not yet indicated when it anticipates lifting the temporary suspension.

Subsequent to the period ended September 30, 2018, Alcohol and Gaming Commission of Ontario (AGCO) announced that under the new revised Ontario regulations, a corporation is not eligible to be issued a retail operator license if more than 9.9% of the corporation is owned or controlled, directly or indirectly, by one or more licensed producers or their affiliates. As at the date hereof, more than 9.9% of the issued and outstanding common shares are owned and controlled, directly or indirectly, by one or more licensed producers or their affiliates. Consequently, the Company and its subsidiaries, including Spirit Leaf, are currently prohibited from obtaining retail operator licenses in the province of Ontario under the Ontario regulations. There is no prohibition on franchise stores, which is the Company's main focus.

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	Time Period
Conduct marketing and advertising campaign in Ontario and sell additional Spirit Leaf franchise locations	Various branding and marketing initiatives, from August 1, 2018 to November 30, 2018, and the sale of 25 individual franchises in the province of British Columbia.	$25,000	Current – December 31, 2018
To open franchise locations in British Columbia, Alberta, Saskatchewan and Ontario	The opening of each Sprit Leaf franchise location.	$1,200,000	Current – July 31, 2019
To open three Company-owned locations, one in the city of Calgary, Alberta, one in the city of Edmonton, Alberta and one in Jasper Alberta.	Opening of the first three wholly owned corporate flagship location to commence selling cannabis.	$1,200,000	Current – December 31, 2018
To open three MOU Joint Venture Dispensaries in the city of Calgary, Alberta.	Opening of the first MOU Joint Venture Dispensary to commence selling cannabis and two additional dispensaries	$600,000	Current – April 30, 2019

The capital resources required for the completion of the above business objectives and milestones is in place from the recently completed initial public offering, private placements and investment agreements 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 September 30, 2018, total consolidated revenue was $1,544,779 (September 30, 2017 – $1,052,481), consolidated cost of goods sold was $910,930 (September 30, 2017 – $514,157), and the consolidated gross profit was $633,849 (September 30, 2017 – $538,324). Total consolidated operating expenses were $1,822,867 (September 30, 2017 – $867,736), consisting of general and administration of $557,976 (September 30, 2017 – $237,011), salaries and wages of $647,969 (September 30, 2017 – $387,378), occupancy costs of $332,446 (September 30, 2017 – $174,499), depreciation of and amortization of $109,813 (September 30, 2017 – $57,887), sales and marketing of $174,683 (September 30, 2017 – $10,961). Other consolidated expenses consisted of share-based compensation of $28,949 (September 30, 2017 – $nil), unrealized gain on marketable securities of $277,658 (September 30, 2017 – $nil), interest expense of $296 (September 30, 2017 – $17,580), and royalty expense of $nil (September 30, 2017 - $26,882). The consolidated net loss and comprehensive loss was $940,605 (September 30, 2017 – $373,874).

For the nine months ended September 30, 2018 (versus the seven months ended September 30, 2017), total consolidated revenue was $3,779,926 (2017 – $1,052,481), consolidated cost of goods sold was $2,067,721 (2017 – $514,157), and the consolidated gross profit was $1,712,205 (2017 – $538,324). Total consolidated operating expenses were $4,697,121 (2017 – $1,161,661), consisting of general and administration of $1,387,482 (2017 – $430,145), salaries and wages of $1,835,343 (2017 – $392,378), occupancy costs of $814,025 (2017 – $174,499), depreciation and amortization of $259,711 (2017 – $57,887), sales and marketing of $400,560 (2017 – $106,752). Other consolidated expenses consisted of share-based compensation of $292,323 (2017 – $nil), unrealized loss on marketable securities of $939,805 (2017 – $nil), interest of $11,220 (2017 – $17,580), and royalties of $5,040 (2017 – $26,882). The consolidated net loss and comprehensive loss was $4,233,304 (2017 – $667,799).

Watch It! Division

For the nine months ended September 30, 2018 (versus the seven months ended September 30, 2017), total revenue from the Watch It! division was $3,379,775 (2017 - $1,051,998) and consisted of retail revenue of $3,222,783 (2017 - $988,626), royalties of $116,233 (2017 - $46,648), advertising revenue of $30,883 (2017 - $12,711), and the balance from miscellaneous revenue of $9,876 (2017 - $4,013). Cost of goods sold was $1,716,529 (2017 - $514,157), and the gross profit was $1,663,246 (2017 - $537,841). Total operating expenses from the Watch It! division were $2,237,717 (2017 - $475,792), consisting of general and administration of $252,513 (2017 -$51,478), salaries and wages of $1,074,759 (2017 - $176,582), occupancy costs of $644,658 (2017 - $168,875), depreciation and amortization of $211,343 (2017 - $57,887), sales and marketing of $54,444 (2017 - $20,970). Other expenses consisted of interest of $11,220 (2017 - $17,580) and royalties of $5,040 (2017 - $26,882). The net loss and comprehensive loss for this division was $590,731 (2017 – net income $17,587).

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 nine months ended September 30, 2018:

- Revenue was slightly lower this quarter versus the quarter ended June 30, 2018, due to seasonality. Total revenue for Watch It! for this quarter was 1,186,206 versus $1,212,796 in Q2 and $980,774 in Q1.
- Gross margins of 49% were in line with management's expectations for the period and were higher than the prior quarter of 48%.
- Staff to sales ratios for the nine months ended was consistent with prior periods, which has ranged from 33%-35%. Total salaries, wages and benefits were $1.07 million on sales $3.34 million, so the staff to sale ratio was 32% for the nine months ended September 30, 2018.
- Rent to sales ratio for the nine months ended was consistent with the prior periods. Occupancy costs were $0.64 million on sales of $3.34 million, resulting in a rent to sales ratio of 19% (June 30, 2018 – 19% and March 31, 2018 – 20%).

Spirit Leaf Division
For the nine months ended September 30, 2018 (versus the seven months ended September 30, 2017), total revenue from the Spirit Leaf division was $400,123 (2017 -$483). There was $1,176,100 (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 deferred revenue will be recognized as revenue upon the opening of store fronts for each of the franchises sold. Cost of goods sold was $351,192 (2017 - $nil), and the gross profit was $48,931 (2017 - $483). Total operating expenses from the Spirit Leaf division were $1,558,344 (2017 -$170,444), consisting of general and administration of $532,261 (2017 -$15,916), salaries and wages of $552,622 (2017 - $85,796), occupancy costs of $169,367 (2017 -$5,624), depreciation and amortization of $48,076 (2017 -$nil) and sales and marketing of $256,018 (2017 -$63,108). The net loss and comprehensive loss for this division was $1,509,413 (2017 -$169,961).

Inner Spirit Corporate Division
For the nine months ended September 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 $901,060 (2017 -$515,425), consisting of general and administration of $602,708 (2017 -$362,751), salaries and benefits of $207,962 (2017 -$130,000), depreciation and amortization of $292 (2017 -$nil), and sales and marketing of $90,098 (2017 -$22,674). Share-based compensation expense was $292,323 (2017 -$nil), and the unrealized loss on marketable securities was $939,805 (2017 -$nil), for the period ended. The net loss and comprehensive loss for this division was $2,133,160 (2017 -$515,425).

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 five quarters.

	3rd Quarter 30-Sep-18	2nd Quarter 30-Jun-18	1st Quarter 31-Mar-18	4th Quarter 31-Dec-17	3rd Quarter 30-Sep-17
Revenue	$ 1,544,779	$ 1,224,975	$ 1,010,171	$ 1,895,382	$ 1,052,481
Net loss	$ (940,605)	$ (1,534,786)	$ (1,410,280)	$ (381,378)	$ (667,799)
Basic loss per share	$ (0.01)	$ (0.02)	$ (0.01)	(0.01)	$ (0.02)
Diluted loss per share	(0.01)	(0.02)	$ (0.01)	(0.01)	$ (0.02)

Revenue for the 3rd quarter ended September 30, 2018 was $1,544,779 (September 30, 2017 -$1,052,481) which was higher than the prior quarter, due to the increased sales at Watch It!, the start of supply revenue of fixtures and supplies from the Spirit Leaf Division as Spirit Leaf dispensaries were preparing to open in Q4. Cost of goods sold for the quarter was $910,930 (2017 $514,157). Total operating expenses for the period were $1,822,867 (2017 $867,736), made up of general and administration of $557,976 (2017 $237,011), salaries and wages of $647,969 (2017 $387,378), occupancy costs of 332,426 (2017 $174,499), depreciation and amortization of $109,813 (2017- $57,887), and sales and marketing of $174,683(2017 – $10,961). Other expenses included share-based compensation of $28,949 (2017-$nil), unrealized gain on marketable securities of $277,658 (2017-$nil), interest of $296 (2017 -$17,580), and royalties of $nil (2017 $26,882).

Revenue for the 2nd 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 1st 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 $1,859,791 was mainly attributable to the retail sales of Watch It!, which had revenue of $1,859,128.

Total expenses for the period were $2,540,571, of which $1,004,438 was cost of goods sold. The balance of expenses was made up of the following: salaries and wages of $661,511, occupancy costs of $276,777, sales and marketing of $188,732, and general and administration of $335,756. The loss of $667,383 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 nine months ended September 30, 2018, was $1,387,482 (Seven months ended September 30, 2017 – $430,145). 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 nine months ended September 30, 2018 (versus the seven months ended September 30, 2017), the Company's cash flow used in operating activities was $3,383,139 (2017 – $198,592).

For the nine months ended September 30, 2018, the Company's cash flows provided by financing activities were $6,313,712 (2017 – $930,070). Cash was provided from net proceeds from issuance of share capital of $6,906,853 (2017 – $889,915). In 2018, $593,141 was used to pay off the shareholder loan versus $40,155 of cash provided from shareholder loans in 2017.

For the nine months ended September 30, 2018, the Company's cash flows provided from investing activities were $745,847 versus cash flow used of 642,287 in 2017. Acquisition of property and equipment used $582,156 (2017 -$2,518). In 2018, $1,328,003 (2017 $nil) cash was provided from investments from other companies. Acquisition of Watch It! used $nil (2017 -$639,769).

Commitments and Contractual Obligations
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	1,794,996	1,794,996	-	-	-
Unredeemed gift card liability	151,233	151,233	-	-	-
Lease obligations	3,618,002	284,000	1,504,279	888,059	941,664

As at September 30, 2018, the company has capital expenditure commitments of approximately $350,000 to complete the build-outs of the three wholly owned corporate stores. In addition, it has contractual obligations which consist of operating leases for office and retail space and 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

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.

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).

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares and preferred shares with no par value. As at September 30, 2018, the Company had 174,844,511 common voting shares for a paid in capital amount of $14,657,273, net of share issuance costs.

During the period ended September 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, September 30, 2018, 60,000 options were exercised and 80,000 were forfeited without being exercised. As at September 30, 2018, the Company had 8,985,000 options outstanding.

During the period ended September 30, 2018, the Company issued a total of 32,901,677 warrants with exercise prices between $0.10 and $0.30 per share. The warrants were granted for consulting services, security for leases, and also for the shares issued as part of the initial public offering, the Sugarbud, Newstrike, 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			174,484,511
Stock options	February 28, 2023	$ 0.10	8,985,000
Warrants	December 31, 2019	$ 0.10	250,000
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
Warrants	August 1, 2020	$ 0.30	12,500,000
Warrants	August 1, 2020	$ 0.30	2,500,000
Warrants	August 1, 2020	$ 0.30	3,529,412
Warrants	August 1, 2020	$ 0.30	7,500,000
Warrants	August 28, 2020	$ 0.28	360,500
Warrants	July 23, 2020	$ 0.30	100,000
Fully diluted			189,731,276

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

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.

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.

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 $481,390 before tax. An equal change in the opposite direction would have decreased equity by $481,390 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 September 30, 2018 by approximately $nil.

Fair Value of Financial Instruments

At September 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 September 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.

Risk Factors

Due to the nature of Inner Spirit's business, the legal and economic climate in which it operates and its present stage of development, Inner Spirit is subject to significant risks. The risks presented below should not be considered to be exhaustive and may not be all of the risks that Inner Spirit may face. Additional risks and uncertainties not presently known to Inner Spirit or that Inner Spirit currently considers immaterial may also impair the business and operations of the Company. If any of the following or other risks occur, the Company's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that event, the trading price of Inner Spirit common shares could decline, and investors could lose all or part of their investment. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

The Company is required to comply concurrently with federal, provincial, and local laws in each jurisdiction where it operates

Various federal, provincial and local laws govern the Company's business in the jurisdictions in which it operates or proposes to operate, including laws and regulations relating to health and safety, conduct of operations and the management, transportation, storage and disposal of our products and of certain material used in our operations. Compliance with these laws and regulations requires concurrent compliance with complex federal, provincial and local laws. Compliance with these laws and regulations requires the investment of significant financial and managerial resources, and a determination that the Company is not in compliance with these laws and regulations could harm its brand image and business. Moreover, it is impossible for the Company to predict the cost or effect of such laws, regulations or guidelines upon our future operations. Changes to these laws or regulations could

negatively affect the Company's competitive position within the cannabis industry and the markets in which the Company operates, and there is no assurance that various levels of government in the jurisdictions in which the Company operates will not pass legislation or regulation that adversely impacts our business.

Competition in the Recreational Cannabis Retail Market
There is potential that the Company will face intense competition from numerous independent dispensaries and other franchise dispensary companies, some of which can be expected to have greater financial resources, market access and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the proposed business, financial condition and results of operations of the Company. Because of the preliminary stage of the recreational cannabis market in which the Company operates, the Company expects to face additional competition from new entrants. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the proposed business, financial condition and operating results of the Company. The Company also competes with other recreational cannabis retail companies in the recruitment and retention of qualified employees.

Laws and regulations are subject to unforeseen changes
The Company's operations are subject to various laws, regulations and guidelines relating to the marketing, acquisition, manufacture, packaging/labelling, management, transportation, storage, sale and disposal of cannabis, including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. If any changes to such laws, regulations and guidelines occur (and in Canada the laws and regulations are currently changing at a rapid pace), which are matters beyond the Company's control, the Company may incur significant costs in complying with such changes or may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operations.

Shelf Life Inventory
The Company holds finished goods in inventory and such inventory has a shelf life. Finished goods in inventory may include herbal cannabis and cannabis oil products. Even though it is the intention of the Company's management to review the amount of inventory on hand in the future, write-down of inventory may still be required. Any such write-down of inventory could have a material adverse effect on the Company's proposed business, financial condition, and results of operations.

Product Liability
Due to the proposed operations of Spirit Leaf, a distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced or distributed (but not produced) by the Company caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the proposed business, financial condition and operating results of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

Potential future acquisitions and/or strategic alliances may have an adverse effect on the Company's ability to manage its business
The Company may acquire technologies, businesses or assets that are complementary to its business and/or strategic alliances in order to leverage its position in the recreational cannabis retail market. Future acquisitions or

strategic alliances would expose the Company to potential risks, including risks associated with the integration of new technologies, businesses and personnel, unforeseen or hidden liabilities, the diversion of management attention and resources from its existing business, and the inability to generate sufficient revenues to offset the costs and expenses of acquisitions or strategic alliances. Any difficulties encountered in the acquisition and strategic alliance process may have an adverse effect on the Company's ability to manage its business.

The Company's limited operating history makes evaluating its business and prospects difficult
The Company has a limited operating history on which to base an evaluation of its business, financial performance and prospects. As such, the Company's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development. As the Company is in an early stage and is introducing new products, the Company's revenues may be materially affected by the decisions, including timing decisions, of a relatively consolidated customer base. The Company has had limited experience in addressing the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving industries such as the recreational cannabis retail industry. There can be no assurance that the Company will be successful in addressing these risks, and the failure to do so in any one area could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

Competition in the Consumer Products Market
Watch It! conducts business under highly competitive conditions in the North American retail merchandising industry. Watch It! has numerous and varied competitors at national and local levels, including conventional and specialty department stores, other specialty stores, category killers, mass merchants, value retailers, discounters, and internet and mail-order retailers. Some of these competitors have greater financial resources available to them, and as a result, may be able to devote greater resources to sourcing, selling or promoting their merchandise. Competition may intensify as new competitors enter into the markets in which Watch It! operates, and/or as our competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment of brands and merchandise, advertising, marketing, promotional activities, price, quality, service, the shopping experience and environment, location, reputation and credit availability. A number of different competitive factors could have a material adverse effect on Watch It!'s and the Company's results of operations and financial condition, including: (i) increased operational efficiencies of competitors; (ii) competitive pricing strategies, including deep discount pricing by a broad range of retailers during periods of poor consumer confidence or economic instability; (iii) expansion of product offerings by existing competitors; (iv) entry by new competitors into markets in which Watch It! operates; and (v) adoption by existing competitors of innovative retail sales methods. If the Company cannot compete effectively, its results of operations could be materially and adversely affected, resulting in lower sales, lower gross margin and/or higher operating expenses. Although the Company has a strategy to improve the performance of Watch It!, there are no assurances that this strategy will be successful.

Reliance on Franchisees
The Company anticipates receiving a significant portion of its operating revenue in the form of franchise royalty payments. Failure to achieve adequate levels of collection from the Company's franchisees, suppliers, landlords and other customers, including by reason of disputes or litigation, could have a serious negative effect on the Company's results of operations and financial condition in particular. It is intended that the Company's franchisees will be independent operators and as such will be subject to many factors which the Company cannot control. Should economic conditions worsen, some franchisees could become unable to pay royalties and rent.

Negative Cash Flow from Operations
The Company had negative operating cash flow for the financial year ended December 31, 2017 and the three and nine months ended September 30, 2018. To the extent that the Company has negative operating cash flow in future periods, it may need to allocate a portion of its cash reserves to fund such negative cash flow. The Company may also be required to raise additional funds through the issuance of equity or debt securities. There can be no assurance that the Company will be able to generate a positive cash flow from its operations, that additional capital or other types of financing will be available when needed or that these financings will be on terms favourable to the Company.

Price Volatility of Publicly Traded Securities
In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the shares of the Company will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company's shares will be affected by such volatility. An active public market for the Company's shares might not develop or be sustained. If an active public market for the Company's shares does not develop, the liquidity of a shareholder's investment may be limited, and the share price may decline.

Management of Growth
The Company may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

No Assurance of Profitability
The Company cannot give assurances that it will not incur net losses in the future. The limited operating history makes it difficult to predict future operating results. The Company is subject to the risks inherent in the operation of a new business enterprise in an emerging and uncertain business sector, and there can be no assurance that the Company will be able to successfully address these risks.

Dividends
The Company has not paid dividends to shareholders in the past and does not anticipate paying dividends in the foreseeable future. The Company expects to retain its earnings to finance growth, and where appropriate, to pay down debt if any debt is incurred by the Company.

Dilution
Issuances of additional securities at or near the current share price of the Company would result in significant dilution of the equity interests of any persons who are holders of common shares.

ADDITIONAL INFORMATION

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