MANAGEMENT DISCUSSION & ANALYSIS OF

INNER SPIRIT HOLDINGS LTD.

FOR THE THREE MONTHS ENDED MARCH 31, 2019

Dated as at May 30, 2019

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The following Management's Discussion and Analysis ("MD&A") of the financial results of Inner Spirit Holdings Ltd. ("Inner Spirit", "we", "our", or the "Company") should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2018 (the "Annual Financial Statements") and the interim condensed financial statements of the Company for the three months ended March 31, 2019 (together with the Annual Financial Statements, the "Financial Statements"). The Financial Statements, including the comparative figures, were prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 May 30, 2019.

Forward-Looking Statements

Certain statements and information contained within this MD&A, and in certain documents incorporated by reference into this document, constitute "forward-looking information" and "forward-looking statements" (collectively, "**forward-looking statements**") within the meaning of applicable securities laws. These statements and information 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 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; the ability of the Company to fund its working capital and forecasted capital expenditures; the Company opening wholly-owned Spiritleaf-branded retail cannabis stores through its subsidiaries; the Company's strategies and objectives, both generally and in respect of its existing business and planned businesses; the Company's corporate and franchise retail cannabis store strategies; the conditions of financial markets generally and with respect to Canadian cannabis companies; the expected demand for the Company's products; the Company's future cash requirements; and the timing, pricing, completion and regulatory approval of financings.

With respect to the forward-looking statements contained in this MD&A, the Company has made assumptions regarding, among other things: the ability of the Company to raise capital; the continued availability of capital; the ability of the Company and its franchisees to open corporate wholly-owned and franchised Spiritleaf-branded retail cannabis stores; the ability of the Company 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 MD&A, as the case may be. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of risks and factors including, but not limited to: the actual financial position and results of operations of the Company may differ materially from the expectations of management; the ability to obtain the capital required to fund development and operations; the ability of the Company to effectively manage its growth and operations; the development and growth of the recreational cannabis retail industry in general; the competition within the cannabis industry in general, which involves companies with higher capitalization, more experienced management or which may be more mature as a business; the ability to capitalize on changes to the marketplace; the ability to comply with applicable governmental regulations and standards; changes to cannabis laws; the ability to attract and retain skilled and experienced personnel; the impact of changes in the business strategies and development priorities of strategic partners; and other risk factors set forth elsewhere in this MD&A or in the documents incorporated by reference into this MD&A.

Readers are cautioned that the foregoing lists of risks and 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 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., 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 subsidiaries: (i) Spirit Leaf Inc. ("Spirit Leaf"), which is wholly-owned by the Company; (ii) Spirit Leaf Macleod Inc. ("Spirit Leaf Macleod"), of which the Company owns 50.1% of the outstanding voting shares; (iii) Spirit Leaf Corporate Inc. ("Spirit Leaf Corporate"), which is wholly-owned by the Company; and (iv) Watch It! Consolidated Ltd. ("Watch It!"), which is wholly-owned by the Company. All four subsidiaries were incorporated under the laws of the Province of Alberta, are headquartered in Calgary, Alberta, and are extra-provincially registered in the various jurisdictions in which they operate.

The Company operates through three divisions: (i) the "Inner Spirit Corporate Division"; (ii) the "Spirit Leaf Division"; and (iii) the "Watch It! Division".

The Inner Spirit Corporate Division is operated through the Company and is responsible for the corporate administration of the Company.

The Spirit Leaf Division is comprised of: (i) the business of Spirit Leaf, the franchise division of the Company's cannabis business, which collects franchise fees, royalties and sells supplies to support the opening of Spiritleaf-branded franchise retail cannabis stores initially in Alberta, British Columbia, Saskatchewan, and in Ontario; (ii) the business of Spirit Leaf Macleod, a joint venture company with 101805 Alberta Ltd. that intends to open one Spiritleaf-branded retail cannabis store in Calgary, Alberta; (iii) the business of Spirit Leaf Corporate, which plans to open wholly-owned corporate Spiritleaf-branded retail cannabis stores in Alberta. Spirit Leaf operates an online business (www.Spiritleaf.ca) through which it sells non-cannabis products and through which it plans, in jurisdictions where the private online retailing of recreational cannabis is permitted, to sell cannabis consumer products. In addition, Spirit Leaf also intends to create house brands, brand white-label cannabis products with such house brands in jurisdictions where doing so is permitted, and to sell such branded white-label cannabis products through its own vertical distribution network, which, if and where permitted, may include online, wholly-owned retail cannabis stores and franchise retail cannabis stores.

The Watch It! Division is comprised of the business of Watch It!, which consists of the marketing, sale and distribution of watches, sunglasses, watch repair services and related accessories through six wholly-owned retail stores, seven franchise retail stores and two e-commerce sites.

Update to Previously Disclosed Forward-looking statements

The (final) long form prospectus of the Company dated July 20, 2018 (the "IPO Prospectus"), under the section "*General Development of the Business of the Company – Marketing Plans and Strategies – Watch It!*", contains a statement indicating that the Company believed that the restructuring mentioned in such section led to the strong Watch It! sales in Q4 of 2017 and would help result in profitable operations in 2018. As at December 31, 2018, Watch It! generated $5,167,169 in revenues, representing 89.22% of the consolidated revenue of the Company, but did not achieve profitable operations. The net loss of $4,689,665 generated by Watch It! in 2018 resulted primarily from the write down of certain property and equipment assets, intangible assets and goodwill acquired in the acquisition of Watch It!, in the amount of $3,526,918. During 2018, management assessed and concluded that indicators of impairment existed on Watch It! as a result of 2018 losses, and therefore an impairment test was performed which resulted in the aforementioned write down.

The IPO Prospectus, under the section "*Use of Proceeds – Maximum Offering – Use of Proceeds*", contains a statement indicating that positive cash flows from operating activities were expected to be realized by year end

2018 based on, among other assumptions, the assumptions that that the Company and its franchisees would open at least 20 Spiritleaf locations and that such stores would achieve a range of between $312,500 to $625,000 in gross sales during the fourth quarter of 2018. As at December 31, 2018, the Company did not realize positive cash flows from operating activities as expected. This was primarily a result of the franchisees of the Company only opening four Spiritleaf retail cannabis stores and the Company opening no Spiritleaf retail cannabis stores in 2018, as opposed to the Company's assumption that 20 Spiritleaf-branded retail cannabis stores will have opened in 2018 and provided the Company with positive cash flow from operating activities. The lower number of Spiritleaf retail cannabis stores opened in 2018 was the result of a slower than anticipated granting of retail cannabis licenses by the Alberta Gaming, Liquor and Cannabis Commission (the "AGLC"), challenges in acquiring various municipal development permits required to operate retail cannabis stores, and the Temporary Suspension (as defined herein) enacted by the AGLC. While the Temporary Suspension remains in place, Spirit Leaf Corporate and the franchisees of Spirit Leaf are not able to submit new applications for retail cannabis licenses in Alberta. Applications for retail cannabis licenses in Alberta that were in progress prior to the enactment of the Temporary Suspension continue to be processed by the AGLC during the Temporary Suspension notwithstanding that the issuance of retail cannabis licenses for such applications is suspended pursuant to the Temporary Suspension. Following the legalization of recreational cannabis on October 17, 2018, there was a national shortage of recreational cannabis product which resulted in the supply of most products running out and led to the imposition of the Temporary Suspension and the Temporary Cap (as defined herein). Lease carrying costs relating to corporate wholly-owned Spiritleaf retail cannabis stores and to franchise locations in Ontario also increased more significantly than expected in 2018, resulting in higher occupancy costs.

The IPO Prospectus, under the section "*Use of Proceeds*", contains statements indicating that the Company did not anticipate using any funds from its initial public offering to fund Watch It!'s operations. As at the date of the IPO Prospectus, the Company anticipated that, based on the completion of the restructuring of the business acquired by Watch It!, sales and margins for Watch It!'s business would increase in 2018 resulting in the subsidiary generating positive cash flows from operating activities. The net loss of $4,689,665 generated by Watch It! in 2018 resulted mainly from the write down of certain property and equipment assets, intangible assets and goodwill acquired in the acquisition of Watch It! in the amount of $3,526,918. After accounting for non-cash expenses such as depreciation and amortization in the amount of $552,430, Watch It! used cash in the amount of $610,317 in 2018. As at June 30, 2018, the Company had estimated consolidated working capital of $1,794,220.24, a portion of which was subsequently used to fund Watch It!'s cash use.

Subsequent Events and Proposed Transactions

In March and April of 2019, the Company received an aggregate loan (the "Tilray Loan") in the amount of $1,500,000 from Tilray, Inc. ("Tilray"). As consideration for Tilray advancing the Tilray Loan to the Company, the Company issued a non-convertible promissory note dated March 5, 2019 in favour of Tilray (the "Tilray Promissory Note"). The Tilray Promissory Note matures on July 5, 2019 and carries a nominal interest rate of 12% per annum, with interest payable on the maturity date.

On May 24, 2019, the Company closed an offering (the "Offering") of debenture units of the Company (the "Debenture Units") for aggregate gross proceeds of $9,270,000. Each Debenture Unit consisted of (i) one 12% senior secured convertible debenture of the Company in the principal amount of $1,000 with interest payable semi-annually in arrears on June 30 and December 31 of each year, commencing June 30, 2020, and maturing on June 30, 2022, and (ii) 2,000 common share purchase warrants of the Company, each entitling the holder thereof to purchase one common share in the capital of the Company at an exercise price equal to $0.25 until November 24, 2019. In connection with the Offering, the Company: (i) paid the agents of the Offering (the "Agents") a cash commission equal to 7% of the gross proceeds of the Offering, including from the exercise of an over-allotment option granted to the Agents, other than on the gross proceeds from the sale of Debenture Units that were purchased by certain purchasers identified by the Company, for which the Agents received a cash commission of 3%; and (ii) issued the Agents 2,088,400 non-transferrable compensation options (the "Compensation Options"), each entitling the holder thereof to acquire one common share of the Company at an exercise price of $0.25 per share until November 24, 2020.

The Company intends to use the net proceeds of the Offering to (i) fund the build-out of six additional wholly owned corporate Spiritleaf-branded retail cannabis stores; (ii) purchase cannabis inventory for corporate Spiritleaf-branded retail cannabis stores; (iii) acquire and maintain real estate leases in the Province of Ontario; (iv) purchase Spiritleaf custom inventory for sale to franchisees of Spirit Leaf; (v) repay the Tilray Loan; and (vi) for working capital and general corporate purposes.

Discussion of Operations

Consolidated Operations

For the three months ended March 31, 2019, total consolidated revenue was $1,253,095 (2018 – $1,010,171), consolidated cost of goods sold was $582,818 (2018 – $521,393), and the consolidated gross profit was $670,277 (2018 – $488,778). Total consolidated operating expenses were $2,562,555 (2018 – $1,251,542), consisting of general and administration of $933,930 (2018 – $329,804), salaries and wages of $780,852 (2018 – $544,937), occupancy costs of $194,023 (2018 – $208,878), depreciation and amortization of $567,776 (2018 – $71,152), sales and marketing of $85,974 (2018 – $96,411). Other consolidated expenses consisted of share-based compensation of $nil (2018 – $151,635), unrealized gain on marketable securities of $72,539 (2018 – loss $479,928), interest of $185,156 (2018 – $10,913), and royalties of $nil (2018 – $5,040). The consolidated net loss and comprehensive loss was $2,004,895 (2018 – $1,410,280).

Inner Spirit Corporate Division

For the three months ended March 31, 2019, revenue from the Inner Spirit Corporate Division was $4,026 (2018 - $nil). As this division manages the administration of the operating subsidiaries, it is not a significant revenue generating unit. Total operating expenses from this division was $204,818 (2018 - $211,071,), consisting of general and administration of $146,285 (2018 - $150,311), salaries and benefits of $nil (2018 - $nil), depreciation of $92 (2018 - $2,311), and sales and marketing of $58,441 (2018 - $55,449), and occupancy costs of $nil (2018 - $3,000). Share-based compensation expense was $nil (2018 - $151,635), and the unrealized gain on marketable securities was $72,539 (2018 - loss $479,928). The net loss and comprehensive loss for this division was $128,253 (2018 - $842,634).

Spirit Leaf Division

For the three months ended March 31, 2019, total revenue from the Spirit Leaf Division was $435,757 (2018 - $29,397). Total revenue was made up of retail revenue was $8,078 (2018 - $nil), royalties of $93,639 (2018 – $nil), advertising revenue of $18,728 (2018 – $nil), millwork revenue of $201,889 (2018 - $nil), franchise fees of $43,750 (2018 – $nil), and supply and other revenue of $69,673 (2018 - $29,397). There was $1,788,850 (December 31, 2018 - $1,842,600) of franchise fee deposits received but not yet earned, which is recorded as a liability on the balance sheet. These franchise fee deposits will be recognized as revenue upon the opening of store fronts for each of the franchises sold. Cost of goods sold was $204,033 (2018 - $22,123), and the gross profit was $231,724 (2018 - $7,274). Total operating expenses from the Spirit Leaf division were $1,751,066 (2018 - $376,704), consisting of general and administration of $724,017 (2018 - $126,917), salaries and wages of $436,214 (2018 - $199,480), occupancy costs of $109,395 (2018 - $10,074), depreciation of $455,634 (2018 - $1,414) and sales and marketing of $25,806 (2018 - $38,819). Interest expense was $142,921 (2018 - $nil) from the calculation of the interest on the lease costs of the right to use assets under IFRS 16, which was adopted this quarter. The net loss and comprehensive loss for this division was $1,662,263 (2018 - $369,430).

Watch It! Division

For the three months ended March 31, 2019, total revenue from the Watch It! Division was $813,312 (2018 - $980,774) and consisted of retail revenue of $779,778 (2018 - $931,825), royalties of $22,979 (2018 - $35,112), advertising revenue of $7,339 (2018 - $8,778), and the balance from supply and other revenue of $3,216 (2018 - $5,059). Cost of goods sold was $378,785 (2018 - $499,270), and the gross profit was $434,527 (2018 - $481,504). Total operating expenses were $593,864 (2018 - $663,767), consisting of general and administration of $61,582 (2018 - $52,576), salaries and wages of $344,638 (2018 - $345,457), occupancy costs of $84,564 (2018 - $195,804), depreciation and amortization of $101,353 (2018 - $67,787), sales and marketing of $1,727 (2018 - $2,143). Other expenses consisted of interest of $42,235 (2018 - $10,913) and royalties of $nil (2018 - $5,054). The net loss and comprehensive loss for this division was $201,572 (2018 - $198,216).

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

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

The following is a summary of the key performance metrics for the three months ended March 31, 2019:

- Revenue of $813,312 (2018 - $980,774) was lower this quarter versus the prior year's quarter as a result of the closure of 2 corporate owned locations.
- Gross margins of 53% were higher than the prior year's quarter of 49%, as a result of the Company focussing on higher margin products, increased repair business, and rebates from suppliers.
- Staff to sales ratios for the period ended was 42% (2018 – 35%), which was higher than the prior year due to lower revenue and due to the increase in the minimum wage and termination payments to employees for the two corporate store closures. Total salaries, wages and benefits remained similar to the prior year's quarter at $344,638 (2018 - $345,457).
- Rent to sales ratio for the period ended was 10% (2018 – 20%) which was significantly lower than the prior year due the closure of the 2 lower performing stores and the change in lease accounting to IFRS 16, which reduced occupancy costs significantly and shifted the expense to interest. Occupancy costs were $84,564 (2018 - $195,804).

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 been prepared for only the seven most recently completed quarters.

	1st Quarter 31-Mar-19	4th Quarter 31-Dec-18	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	$ 1,253,095	$ 2,011,460	$ 1,544,779	$ 1,224,975	$ 1,010,171	$ 1,895,382	$ 1,052,481
Net loss	$ (2,004,895)	$ (7,437,030)	$ (940,605)	$ (1,900,412)	$ (1,410,280)	$ (381,378)	$ (373,874)
Basic loss per share	$ 0.01	$ (0.05)	$ (0.01)	$ (0.03)	$ (0.01)	(0.01)	$ (0.01)
Diluted loss per share	$ 0.01	(0.05)	(0.01)	(0.03)	$ (0.01)	(0.01)	(0.01)

Revenue for the 1st quarter ended March 31, 2019 was $1,253,095 (2018 - $1,010,171), which was 24% higher than Q1 of 2018. Retail revenue attributable to Watch It! decreased 15.49% as a result of the planned closure of 2 corporate owned locations. Royalty revenue increased 232% to $116,618 (2018 - $35,112) as a result of the operation of the first four Spiritleaf franchise retail cannabis stores for the full quarter and the opening of the fifth Spiritleaf franchise retail cannabis store in Q1 of 2019. The advertising portion of royalty revenue increased 197% as a result of the first five Spiritleaf franchise retail cannabis stores, and millwork revenue increased 492% to $201,889 (2018 - $34,456) as a result of the sale of new fixtures to Spiritleaf franchise retail cannabis stores that are preparing to open. Net loss for the quarter was $2,004,895 (2018 - $1,410,280). This loss was higher than Q1 of 2018 as a result of higher occupancy costs from carrying leased locations that are not yet open and the adoption of IFRS 16 with respect to the accounting treatment of leases. Salaries and wages also increased 43% as the Company hired the necessary personnel to prepare, operate and support the first wave of franchise and corporate retail cannabis stores that opened and that are anticipated to be opened. General and administration increased 181.89% to $933,930 (2018 - $329,804) primarily as a result of increased professional fees related to financings, acquisitions and lease transactions.

Revenue for the 4th quarter ended December 31, 2018 was $2,011,460 (2017 - $1,895,382) which was higher than the prior quarter, due to the commencement of revenue from the Spirit Leaf Division. Net loss was $7,437,030 (2017 - $381,378). This loss was significantly higher than the prior quarters as a result of mainly the following in the 4th quarter ended December 31, 2018:

- Impairment loss of $3.5 million for write-down of the assets and goodwill acquired in the acquisition of Watch It!;
- Unrealized loss on marketable securities of $1.1 million;

- Share-based compensation of $0.6 million; and
- Additional expenses in ramping up operations of the Spirit Leaf Division.

Revenue for the 3rd quarter ended September 30, 2018 was $1,544,779 (2017 - $1,052,481), which was higher than the prior quarter due to increased sales at Watch It! and the commencement of revenue from millwork from the Spirit Leaf Division as Spirit Leaf dispensaries were preparing to open in the 4th quarter of 2018. 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; and
- The balance of the loss is related to the costs of operations of Spirit Leaf, where no revenue has been earned.

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, depreciation and amortization of $71,512, 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 during that quarter, 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; and
- The balance of the loss is related to the costs of operations of Spirit Leaf, where no revenue has been earned.

General and Administration Expenses

The Company's general and administrative expenses for the three months ended March 31, 2019 was $933,930 (2018 – $329,804). The general and administration expenses were significantly higher in the year due to the ramp up of operations of the Spirit Leaf division and due to higher professional fees as a result of the many corporate transactions and investments in the Company.

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 in future reporting periods.

Liquidity

During the three months ended March 31, 2019, the Company's cash flow used in operating activities was $945,379 (2018 – $1,175,511).

During the three months ended March 31, 2019, the Company's cash flows provided by financing activities were $1,205,075 (2018 – $1,202,556). Cash was provided from net proceeds from issuance of share capital of $1,512,000 (2018 – $1,795,697). $1,500,000 of this amount was from the issuance of common shares to acquire the assets of three proposed cannabis retail stores from a Spiritleaf franchise partner. Cash of $271 (2018 - $593,141) was used to pay off a related party loan.

During the three months ended March 31, 2019, the Company's cash flows used in investing activities were $1,585,443 (2018 - $96,909). Cash was used in investing activities for acquisition of property and equipment of $442,364 (2018 - $96,909) and acquisition of franchise store permits of $1,143,079 (2018 – $nil).

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Commitments and Contractual Obligations

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

		Payments Due by Period			
	Total	Less than 1 year	2 to 3 years	4 to 5 years	After
Accounts payable and accrued liabilite	1,090,583	1,090,583	-	-	-
Short term note payable	1,750,000	1,750,000			
Payable to related party	208,508	208,508	-	-	-
Unredeemed gift card liability	167,443	167,443	-	-	-
Lease liabilities	10,915,143	1,680,227	3,693,966	3,232,221	2,308,729

As at March 31, 2019, the Company has collected $1,773,850 of franchise fee deposits as a long-term liability, which are refundable. These deposits are non-refundable, unless a lease is not signed by the Landlord and the Franchisee and delivered to the Company by June 30, 2019. At the option of the Company they may terminate the lease agreement and any refundable initial fee less amounts payable to the Company shall be refundable. 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 March 31, 2019, the Company has budgeted approximately $2.3 million to complete the build-outs of the first ten wholly owned corporate stores.

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:

		3 months ended March 31, 2019		Year ended December 31, 2018
Short-term benefits	**$**	**66,000**	$	364,100
Long-term benefits (*)		**-**		61,171
	$	**66,000**	$	425,271

(*) 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 March 31, 2019, there was $nil (December 31, 2018 - $100,000) of outstanding payables to related parties, that is included in accounts payable and accrued liabilities.

During the three months ended March 31, 2019, the Company paid rent for office space to a company related by virtue of a common officer and director, in the amount of $9,513 (December 31, 2018 - $43,796). During the period ended March 31, 2019, the Company entered into a new lease agreement effective March 1, 2019 for a term of 5 years, for $30,000 per year for the first 3 years, and $32,070 per year for the last 2 years. The yearly rent was based on a fair value assessment completed by an independent appraiser.

As at March 31, 2019, payable to related party was a non-interest-bearing, unsecured, due on demand loan of $208,508 (December 31, 2018- $208,779) for costs incurred for Spirit Leaf Macleod.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares and preferred shares with no par value. As at March 31, 2019, the Company had 193,374,996 common shares for a paid in capital amount of $18,483,660, net of share issuance costs.

During the year ended December 31, 2018, the Company granted 9,125,000 options at a price of $0.10 per share and 5,600,000 options at a price of $0.20 per share to directors, officers, employees, and consultants, pursuant to the Company's stock option plan. During the year ended December 31, 2018, 60,000 options were exercised and 80,000 were forfeited without being exercised. During the period ended March 31, 2019, 120,000 options were exercised and 550,000 were forfeited without being exercised. As at March 31, 2019, the Company had 13,915,000 options outstanding.

During the year ended December 31, 2018, the Company issued a total of 33,151,677 warrants with exercise prices between $0.10 and $0.30 per share. During the year ended, 250,000 warrants were exercised. The warrants were granted for consulting services, security for leases, and as part of units issued pursuant to the Company's initial public offering, the transaction with Sugarbud, the transaction with Newstrike, and the transaction with Auxly. As at March 31, 2019, the Company had 32,901,677 warrants outstanding.

On May 24, 2019, the Company announced it has closed its offering (the "Offering") of secured convertible debenture units of the Company (the "Debenture Units") for aggregate gross proceeds of $9,270,000. Each Debenture Unit consisted of (i) one 12% senior secured convertible debenture of the Company in the principal amount of $1,000 (each, a "Debenture") with interest payable semi-annually in arrears on June 30 and December 31 of each year, commencing June 30, 2020, and maturing on June 30, 2022, and (ii) 2,000 common share purchase warrants (each, a "Warrant") of the Company, each Warrant entitling the holder thereof to purchase one common share in the capital of the Company at an exercise price equal to $0.25 for a period of eighteen (18) months following the date hereof. See Subsequent Events and Proposed Transactions for additional information.

The majority of the options and warrants outstanding have vesting provisions that have not yet been met.

The following details the share capital structure as of the date of this MD&A, May 30, 2019.

	Expiry Date	Exercise Price	Number
Common shares			193,469,996
12% Senior Secured Convertible Debentures	June 30, 2022	$ 0.25	37,080,000
Stock options	February 28, 2023	$ 0.10	8,260,000
Stock options	December 10, 2023	$ 0.20	5,540,000
Warrants	December 31, 2019	$ 0.10	150,000
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
IPO Warrants	July 31, 2020	$ 0.30	12,500,000
Agent's Options	July 31, 2020	$ 0.15	2,500,000
Warrants	July 31, 2020	$ 0.30	3,529,412
Warrants	July 31, 2020	$ 0.30	7,500,000
Warrants	August 28, 2020	$ 0.28	360,500
Warrants	July 23, 2020	$ 0.30	100,000
Warrants	December 10, 2020	$ 0.30	100,000
Warrants	December 10, 2020	$ 0.20	150,000
Warrants	November 24, 2020	$ 0.25	18,540,000
Compensation options	November 24, 2020	$ 0.25	2,088,400
Fully diluted			297,880,073

Recently Adopted Accounting Pronouncements

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.

Effective January 1, 2019, the Company adopted IFRS 16, Leases ("IFRS 16"), which supersedes previous accounting standards for leases, including IAS 17, Leases ("IAS 17"), and IFRIC 4, Determining whether an arrangement contains a lease ("IFRIC 4"). IFRS 16 introduces a single lessee accounting model, unless the underlying asset is of low value, and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on our Condensed Interim Consolidated Statements of Financial Position, as well as a decrease to operating expenses (for the removal of base rent expense for leases), an increase to depreciation (due to the depreciation of the right-of-use asset), and an increase to finance costs (due to accretion of the lease liability). Leasehold inducements, store closure costs and average rent adjustments (which were previously included in accounts payable and accrued liabilities) and onerous lease provisions are no longer recognized as separate liabilities and are included in the calculation of right-of-use assets under IFRS 16.

The Company adopted IFRS 16 using the modified retrospective method and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The cumulative effect of initially applying the new standard is recognized as an adjustment to the opening deficit within the shareholders' equity balance as at January 1, 2019.

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.

Critical Accounting Estimates

A summary of the Company's significant accounting policies is contained in Note 2 to the Annual Financial Statements. 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:

Going Concern

Determining if the Company has the ability to continue as a going concern is dependent on its ability to achieve profitable operations. Certain judgments are made when determining if the Company will achieve profitable operations.

Expected credit losses

The Company's accounts receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses ("ECL"). The Company measures loss allowances based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

Inventory

Inventory is carried and the lower of cost and net realizable value; in estimating net realizable value, the Company makes estimates related to obsolescence, future selling prices, seasonality, customer behavior, and fluctuations in inventory levels.

Determining CGUs
For the purpose of assessing impairment of non-financial assets, the Company must determine its cash-generating units (CGUs). Assets are grouped into CGUs at the lowest level of separately identified cash flows. The determination of a CGU is based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Management has determined that each corporate store in Spirit Leaf and Watch it! is its own CGU.

Impairment testing of PP&E, goodwill, and indefinite life intangible assets
PP&E, goodwill and indefinite life intangible assets are assessed for impairment at least annually, and whenever there is an indication that the asset may be impaired. The Company determines the fair value of its CGU groupings and indefinite life intangible assets using discounted cash flow models corroborated by other valuation techniques.

The process of determining these fair values requires the Company to make estimates and assumptions of a long-term nature regarding discount rates, projected revenues, margins, as applicable, derived from past experience, actual operating results and budgets. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Depreciation
The Financial Statements include estimates of the useful economic life of property and equipment. Due to varying assumptions required to be made with regards to useful life of these assets, the depreciation recorded by management is based on their best estimate and in this regard may be significantly different from those determined based on future operational results.

Amortization of intangible assets
The Financial Statements include estimates of the useful economic life of intangible assets. Due to varying assumptions required to be made with regards to future recoverability of these assets, the amortization recorded by management is based on their best estimate and in this regard may be significantly different from those determined based on future operational results.

Deferred tax assets
Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable income in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Estimate on share-based compensation and warrants
The Company issues warrants and stock options to directors, officers and other consultants. The Company employs the fair value method of accounting for stock options and warrants. The determination of the share-based compensation expense for stock options and warrants requires the use of requires judgment as to the appropriate valuation model and the inputs for the model require assumptions including the rate of forfeiture of options and warrants granted, the expected life of the option or warrant, the expected volatility of the Company's share price, the risk-free interest rate and expected dividends.

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,

short-term deposits, 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 $168,250 after tax. An equal change in the opposite direction would have decreased equity by $168,250 after tax.

Fair Value of Financial Instruments

At March 31, 2019, 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.

Marketable securities are classified as level 1, and the warrants included in marketable securities are classified as level 2. During the quarters ended March 31, 2019 and 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 period ended March 31, 2019 and 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.

Temporary Suspension in Alberta

Distribution of recreational cannabis in the Province of Alberta is carried out through a hybrid retail model under the oversight of the AGLC. On November 21, 2018, the AGLC temporarily suspended accepting new cannabis retail license applications and issuing any additional cannabis retail licenses (the "**Temporary Suspension**").

While the Temporary Suspension remains in place, neither Spirit Leaf Corporate nor Spirit Leaf Macleod 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, potentially 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, if at all. To date, during the Temporary Suspension, the AGLC approved two batches of cannabis retail license applications that were in progress prior to the enactment of the Temporary Suspension.

There is no assurance that the Temporary Suspension will be lifted by the AGLC, or, if the Temporary Suspension is lifted by the AGLC, that all, or any, of Spirit Leaf Corporate, Spirit Leaf Macleod and the franchisees of Spirit Leaf will be able to obtain cannabis retail licenses from the AGLC, which would have a material adverse effect on the Company.

Temporary Cap in Ontario

On December 13, 2018, the Government of Ontario announced that a temporary cap of 25 retail operator licenses will be imposed while cannabis supply stabilizes (the "**Temporary Cap**"). The Government of Ontario gave the Alcohol and Gaming Commission of Ontario ("AGCO") the mandate to hold a lottery to determine who may apply for retail operator licenses. The retail operator licenses lottery was subsequently held in January, 2019. The AGCO has indicated that the Temporary Cap will be maintained until December, 2019.

While the Temporary Cap remains in place, franchisees of Spirit Leaf are not able to submit applications for retail operator licenses in the Province of Ontario. There is no assurance that the Temporary Cap will be lifted by the Government of Ontario, or, if the Temporary Cap is lifted by the Government of Ontario, that all, or any, of the franchisees of Spirit Leaf will be able to obtain retail operator licenses from the AGCO, which would have a material adverse effect on the Company.

Ontario Prohibition

On November 14, 2018, the Government of Ontario passed regulations (the "**Ontario Regulations**") under the *Cannabis Licence Act*, 2018 (Ontario), regulating the licensing of privately owned retail cannabis stores in the Province of Ontario. Under the 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 ("**Licensed Producers**"). As at the date hereof, more than 9.9% of the issued and outstanding common shares of the Company 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 Corporate, are currently prohibited from obtaining retail operator licenses in the Province of Ontario under the Ontario Regulations. Furthermore, certain municipalities in Ontario exercised their one time option to opt-out of having cannabis retail stores in their communities. To the extent that certain municipalities opted-out in potential in any municipalities that the Company has identified for entry, the Company will need to redirect its strategy and resources to find alternate retail locations.

There is no assurance that the Company's intended retail and franchising strategy in Ontario complies with or is permitted under the Ontario Regulations and the inability for the Company to execute on its intended objectives to establish a retail presence in Ontario could have a material adverse effect on the Company's business, operations and financial condition.

Additional Information

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