MANAGEMENT'S DISCUSSION & ANALYSIS OF

INNER SPIRIT HOLDINGS LTD.

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

Dated as at August 27, 2019

Table of Contents

Introduction

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 consolidated financial statements of the Company for the three and six months ended June 30, 2019 (the "**Interim Financial Statements**", and 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 information in this MD&A is current as of August 27, 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; there being up to 33 Spiritleaf-branded retail cannabis stores open and operating by the end of the third quarter of 2019; 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.

Non-IFRS Financial Measures

This MD&A makes reference to "system-wide retail sales", a financial measure that is not determined or defined in accordance with IFRS. Such non-IFRS financial measure does not have a standardized meaning prescribed by IFRS and Inner Spirit's methods of calculating this financial measure may differ from methods used by other companies. Accordingly, such non-IFRS financial measure may not be comparable to similarly titled measures presented by other companies. This measure is provided as additional information to complement IFRS by providing a further understanding of operations from management’s perspective and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

System-wide retail sales, when presented: (i) on a consolidated basis for the Company, represents the sum of the revenue reported to the Company by franchisees of Spiritleaf-branded retail cannabis stores, by Company-owned Spiritleaf-branded retail cannabis stores, by franchisees of Watch It! retail stores and by Company-owned Watch It! retail stores; (ii) for the Spirit Leaf Division, represents the sum of the revenue reported to the Company by franchisees of Spiritleaf-branded retail cannabis stores and by Company-owned Spiritleaf-branded retail cannabis stores; and (iii) for the Watch It! Division, represents the sum of the revenue reported to the Company by franchisees of Watch It! retail stores and by Company-owned Watch It! retail stores.

This measure is useful to management and the investment community in evaluating brand scale and market penetration, and is used by management of Inner Spirit to assess the financial and operational performance of the Company and the strength of the Company's market position relative to its competitors.

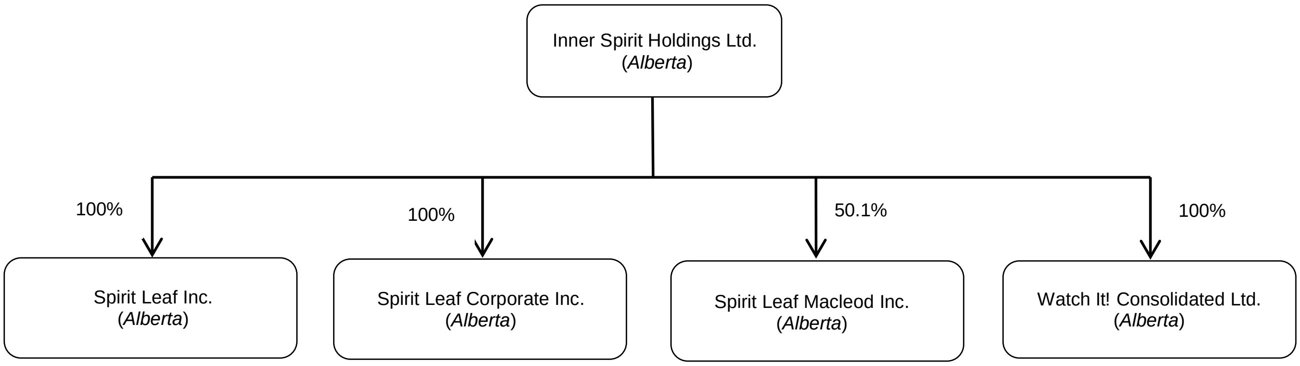
Corporate Overview

Corporate Structure

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 Company completed its initial public offering on July 31, 2018 (the "**IPO**") and subsequently the Company's common shares started trading on the Canadian Securities Exchange on August 1, 2018 under the symbol "ISH". 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 organizational chart for the Company is as follows:



Description of the Business

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

Inner Spirit Corporate Division

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

Spirit Leaf Division

The Spirit Leaf Division is comprised of: (i) the business of Spirit Leaf, the franchise division of the Company's cannabis business, which consists of the current operation, planned opening and ongoing support of, and the collection of franchise fees, royalties and the sale of supplies to, Spiritleaf-branded franchise or licensed retail cannabis stores in Alberta, British Columbia, Saskatchewan, and Ontario; (ii) the business of Spirit Leaf Macleod, a joint venture company with 101805 Alberta Ltd., which consists of the operation of a Spiritleaf-branded retail cannabis store in Calgary, Alberta; (iii) the business of Spirit Leaf Corporate, which consist of the current operation and the planned opening of 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.

As at June 30, 2019, a total of 10 Spiritleaf-branded retail cannabis stores were open and operating across Canada: (i) 5 Spiritleaf-branded franchised retail cannabis stores were open and operating in Alberta; (ii) 2 Spiritleaf-branded wholly-owned corporate retail cannabis stores, which opened in late June 2019, were open and operating in Alberta; (iii) 1 Spiritleaf-branded franchised retail cannabis store, which opened in late June 2019, was open and operating in British Columbia; (v) one Spiritleaf-branded franchised retail cannabis store was open and operating in Saskatchewan; and (vi) one Spiritleaf-branded licensed retail cannabis store was open and operating in Ontario.

As at the date of this MD&A a total of 24 Spiritleaf-branded retail cannabis stores are open and operating across Canada: (i) 12 Spiritleaf-branded franchised retail cannabis stores are open and operating in Alberta; (ii) 5 Spiritleaf-branded wholly-owned corporate retail cannabis stores are open and operating in Alberta; (iii) one Spiritleaf-branded retail cannabis store, owned by Spirit Leaf Macleod, is open and operating in Alberta; (iv) 4 Spiritleaf-branded franchised retail cannabis stores are open and operating in British Columbia; (v) one Spiritleaf-branded franchised retail cannabis store is open and operating in Saskatchewan; and (vi) one Spiritleaf-branded licensed retail cannabis store is open and operating in Ontario. The Company anticipates that there will be up to 33 Spiritleaf-branded retail cannabis stores open and operating by the end of the third quarter of 2019, of which up to eight retail cannabis stores are expected to be corporate-owned (inclusive of the store operated by Spirit Leaf Macleod).

On November 21, 2018, the Alberta Gaming, Liquor and Cannabis Commission (the "**AGLC**") temporarily suspended accepting new cannabis retail licence applications and issuing any additional cannabis retail licenses (the "**Temporary Suspension**"). 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. On May 30, 2019, the AGLC announced the lifting of its moratorium on accepting new retail licence applications, and began issuing five retail cannabis store licences per week, subsequently increasing that number to ten and then twenty retail cannabis store licenses per week. As at the date hereof there is no longer a licensing queue in Alberta, which means that stores are licensed upon compliance with the AGLC's requirements for the issuance of a final retail cannabis licence.

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**"). At that time, 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 and on August 20, 2019, the AGCO held a second lottery to select applicants that will be invited to apply for one of 42 additional retail store authorizations for retail cannabis stores.

As a result of the Temporary Suspension and the Temporary Cap, the number of retail cannabis outlets operating in Alberta and Ontario during the quarter ended June 30, 2019 remained below the number of retail cannabis outlets that would have been in operation if the Temporary Suspension and the Temporary Cap had not enacted. While the Temporary Suspension remained in place franchisees of Spirit Leaf operating Spiritleaf-branded retail cannabis stores faced, and, while the Temporary Cap remains in effect the Company's partner (the "**Ontario Partner**") operating a Spiritleaf-branded licensed retail cannabis store in Ontario will face, artificially lower levels of general competition from other retail cannabis stores as compared to the alternative had the Temporary Suspension and the Temporary Cap not been enacted. As the Temporary Suspension has now been lifted, it is anticipated that Spiritleaf-branded retail cannabis stores in Alberta, including Spiritleaf-branded corporate-owned retail cannabis stores, will receive licences upon compliance with the AGLC's requirements for the issuance of a final retail cannabis licence instead of being placed into a licensing queue. As other retailers, some of which have greater financial resources than the Company and its franchisees, will also be able to receive retail cannabis licences upon compliance with AGLC requirements, competition faced by Spiritleaf-branded retail cannabis stores from other retailers is anticipated to increase.

Because of the preliminary stage of the recreational cannabis market in Canada, the Company expects that its subsidiaries and franchisees of Spirit Leaf will face competition from new entrants (subject to the Temporary Cap). To remain competitive, the Company and its subsidiaries will require a continued high level of investment in marketing, sales and client support. The Company believes that its product knowledge, experience operating retail outlets under the Watch It! brand, and strategic partnerships with larger, established companies in the cannabis industry (including Auxly Cannabis Group Inc., HEXO Corp. and Tilray, Inc.), will allow it to offset some of the risks associated with any increased competition in the retail cannabis market.

Pursuant to regulations enacted by the Government of Canada, the sale of edible cannabis products and concentrates will be permitted in late December, 2019. The Company and its subsidiaries expect to dedicate additional resources to explore the sale of edible products and concentrates as soon as they are lawfully permitted to do so.

Watch It! Division

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, six franchise retail stores and two e-commerce sites. Watch It! stores are currently located in

Alberta, British Columbia, Saskatchewan and Ontario. The business of Watch It! is seasonal, and is generally busier from May to August and November to December of each year.

The watch, sunglasses, and related accessory industries are highly competitive with general competitors including department stores, large mass-merchandising stores and warehouse clubs, such as The Bay, Simons, Nordstrom and Costco, among others. Watch It!'s stores compete with many retailing formats in the geographic areas in which they operate, including department stores, specialty stores, general merchandising stores, off-price and discount stores, new and established forms of home shopping (including the internet, mail order catalogues and television) and manufacturers' outlets. Significant competitors in the geographical regions in which Watch It! operates include The Bay, Fossil, Watch Station, Ann Louise and Ben Moss, among others.

There is no effective barrier to entry into the Canadian watch, sunglasses, and related accessory retailing marketplaces by any potential competitor, foreign or domestic. Additionally, Canadian consumers have a significant number of e-commerce shopping alternatives available to them on a global basis. Watch It! seeks to attract customers with a select offering of brands in an appealing shopping environment at conveniently located stores where it offers a high level of customer service. Additionally, Watch It! attempts, to the extent possible, to counter competition on the basis of price, fashion, service and quality.

Watch It! operates multiple retail locations in several Canadian provinces, with product offerings that are sufficiently diversified and consistently updated to keep up with consumer trends and demand. Watch It! also offers an e-commerce alternative for shoppers through its two e-commerce sites. The e-commerce retail landscape is highly competitive with both domestic and foreign competition.

Results of Operations

The following table summarizes our consolidated results of operations for the three and six month periods ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
System-Wide Retail Sales(1)	**$ 6,684,484**	$ 2,192,757	**$ 10,091,314**	$ 3,978,894
Revenue				
Retail revenue	**959,967**	1,160,282	**1,747,823**	2,092,107
Royalties	**258,680**	42,483	**375,298**	77,595
Advertising	**57,316**	10,621	**83,383**	19,399
Millwork	**312,315**	-	**503,487**	-
Franchise fee	**57,500**	-	**101,250**	-
Supply and other revenue	**130,103**	11,589	**217,735**	46,045
Total revenue	**$ 1,775,881**	$ 1,224,975	**$ 3,028,976**	$ 2,235,146
Cost of goods sold	**833,347**	640,543	**1,416,166**	1,161,936
Gross profit	**942,534**	584,432	**1,612,810**	1,073,210
Operating expenses				
General and administrative	**1,670,729**	491,303	**2,604,659**	821,107
Salaries, wages, and benefits	**884,946**	642,437	**1,665,798**	1,187,374
Occupancy costs	**504,389**	272,425	**698,341**	481,303
Depreciation and amortization	**111,491**	78,385	**190,938**	149,897
Right of use asset depreciation	**309,715**	-	**798,044**	-
Sales and marketing	**170,090**	134,957	**256,063**	231,368
Total operating expenses	**3,651,360**	1,619,507	**6,213,843**	2,871,049
Other expenses				
Share-based compensation	**55,111**	127,790	**55,111**	279,425
Unrealized loss (gain) on marketable securities	**(208,991)**	737,536	**(281,528)**	1,217,464
Interest expense	**254,737**	11	**439,892**	10,924
Royalty expense	**-**	-	**-**	5,040
Total other expenses	**100,857**	865,337	**213,475**	1,512,853
Net loss and comprehensive loss	**$ (2,809,683)**	$ (1,900,412)	**$ (4,814,508)**	$ (3,310,692)

Note:

(1) System-wide retail sale is a non-IFRS measure that does not have a standardized meaning prescribed by IFRS. See the "Non-IFRS Financial Measures" section of this MD&A.

The Company reported a net loss and comprehensive loss of $2,809,683 and $4,814,508 for the three and six month periods ended June 30, 2019, respectively, compared to $1,900,412 and $3,310,692 for the three and six month periods ended June 30, 2018. The increases in net loss and comprehensive loss were principally due to higher operating expenses incurred by the Company, as discussed below, and are attributable to expenses incurred to set up and expand the Spirit Leaf Division, which is a start up in the new regulated retail cannabis business.

Revenue

Total revenue for the three month period ended June 30, 2019 was $1,775,881 versus $1,224,975 in the same period in the prior year, representing a 45.0% increase. Revenue for the six month period ended June 30, 2019 was $3,028,976 versus $2,235,146 in the same period in the prior year, representing a **35.5**% increase.

The growth in total revenue is attributable to the opening of Spiritleaf-branded franchised retail cannabis stores in the three and six months ended June 30, 2019 and in the fourth quarter of 2018. Prior to opening, such Spiritleaf-branded franchised retail cannabis stores purchased millwork from the Company, driving revenues from millwork, and once open and operating, such Spiritleaf-branded franchised retail cannabis stores generated royalties, advertising and supply and other revenues for the Company.

The decline in consolidated retail revenue from the three and six month periods ended June 30, 2018 to the same periods in 2019 was driven by the decline in retail revenue earned by the Watch It! Division, which resulted primarily from the closure of two corporate-owned Watch It! retail stores. Two corporate-owned Spiritleaf-branded retail cannabis stores opened on June 26 and June 28, 2019, but did not materially add to the consolidated retail revenue for the periods. The two corporate-owned Spiritleaf-branded retail cannabis stores, as well as additional corporate-owned retail cannabis stores that opened in July and August, 2019 and that are anticipated to open in September, 2019, are expected to drive retail revenue growth in the third quarter of 2019.

During the three and six month periods ended June 30, 2019 the Company achieved system-wide retail sales of $6,684,484 and $10,091,314, representing increases of 204.8% and 153.6% from the same periods in the prior year. Growth in system-wide retail sales was driven by the Spirit Leaf Division, as a number of Spiritleaf-branded franchised retail cannabis stores opened subsequent to June 30, 2018 and generated system-wide retail sales.

Gross Profit

Gross profit for the three month period ended June 30, 2019 was $942,534 versus $584,432 in the same period in the prior year, representing a 61.3% increase. Gross profit for the six month period ended June 30, 2019 was $1,612,810 versus $1,073,210 in the same period in the prior year, representing a 50.3% increase. The increase in gross profit was driven primarily by the growth in total revenue, which is discussed in the section above, and further enhanced by the increase in royalties, which did not have a corresponding increase in cost of goods sold.

Operating Expenses

Total operating expenses for the three and six month periods ended June 30, 2019 were $3,651,360 and $6,213,843, compared to $1,619,507 and $2,871,049 in the same periods in the prior year. The significant increases from comparable periods were driven largely by the Company's continued growth and expansion into the retail cannabis industry to take advantage of the market opportunities created by the legalization of recreational cannabis use across Canada on October 17, 2018. This required the Company to incur significant costs to build-out and open corporate-owned retail cannabis stores, hire retail staff for corporate-owned retail cannabis stores that were opened and that are anticipated to be opened by the Company, and to hire managerial and administrative staff to support the Company's growth.

Significant costs were also incurred by the Company for the Debenture Financing (as defined herein) that closed on May 25 and June 7, 2019 and for carrying leases for potential locations for corporate and franchised retail cannabis stores. The adoption of IFRS 16 (as defined herein) with respect to the accounting treatment of leases resulted in right of use asset depreciation increasing to $309,715 and $798,044 in the three and six month periods ended June 30, 2019 from $Nil in the same periods in the prior year.

Other Expenses

Total other expenses for the three and six month periods ended June 30, 2019 were $100,857 and $213,475, compared to $865,337 and $1,512,853 in the same periods in the prior year. The variances between the periods relate primarily to the Company recording an unrealized gain on marketable securities, being shares of Tilray, Inc. Class 2 Common Stock (the "**Tilray Shares**") that it acquired on June 13, 2019, whereas it recorded unrealized losses on marketable securities in the same periods in the prior year.

The Company incurred interest expenses of $254,737 and $439,892 in the three and six month periods ended June 30, 2019 versus $11 and $10,924 in the same periods in the prior year, driven primarily by interest incurred on the Convertible Debentures issued in the Debenture Financing and by accretion expense related to lease liabilities due to the adoption of IFRS 16 by the Company effective January 1, 2019.

Segment Operations

Inner Spirit Corporate Division

The following table sets out certain selected financial information for the Spirit Leaf Corporate Division for the three and six month periods ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Revenue	**$ 8**	$ 28	**$ 4,034**	$ 28
Cost of goods sold	**-**	-	**-**	-
Gross profit	**8**	28	**4,034**	28
Operating expenses				
General and administrative	**1,567,567**	202,311	**1,713,852**	355,033
Salaries, wages, and benefits	**-**	660	**-**	660
Depreciation and amortization	**79**	-	**171**	200
Sales and marketing	**85,919**	63,693	**144,360**	63,693
Occupancy costs	**-**	-	**-**	-
Total operating expenses	**1,653,565**	266,664	**1,858,383**	419,586
Other Expenses				
Share-based compensation	**55,111**	127,790	**55,111**	279,425
Unrealized loss (gain) on marketable securities	**(208,991)**	737,536	**(281,528)**	1,217,464
Interest expense	**152,386**	-	**152,386**	-
Total other expenses	**(1,494)**	865,326	**(74,031)**	1,496,889
Net loss and comprehensive loss	**$ (1,652,063)**	$ (1,131,962)	**$ (1,780,318)**	$ (1,916,447)

The main function of the Inner Spirit Corporate Division is to administer the Spirit Leaf Division and the Watch It! Division and to manage the executive management and financing needs of the business. Accordingly, the Inner Spirit Corporate Division is not a significant revenue generating unit, generating revenues of only $8 and $4,034 in the three and six month periods ended June 30, 2019. The Company's general and administrative costs are, for the most part, incurred by the Inner Spirit Corporate Division.

Spirit Leaf Division

The following table sets out certain selected financial information for the Spirit Leaf Division for the three and six month periods ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
System-Wide Retail Sales(1)	**$ 4,626,946**	$ -	**$ 6,517,391**	$ -
Revenue	**802,735**	12,151	**1,238,492**	41,548
Cost of goods sold	**345,144**	10,004	**549,178**	32,127
Gross profit	**457,591**	2,147	**689,314**	9,421
Operating expenses				
General and administrative	**66,499**	155,797	**790,516**	282,714
Salaries, wages, and benefits	**560,713**	244,564	**996,927**	444,044
Depreciation and amortization	**244,473**	21,717	**700,107**	23,131
Sales and marketing	**83,313**	40,542	**109,118**	124,453
Occupancy costs	**288,681**	48,054	**398,069**	58,128
Total operating expenses	**1,243,679**	510,674	**2,994,737**	932,470
Other Expenses				
Interest expense	**34,186**	-	**177,106**	-
Total other expenses	**34,186**	-	**177,106**	-
Net loss and comprehensive loss	**$ (820,274)**	$ (508,527)	**$ (2,482,529)**	$ (923,049)

Note:

(1) System-wide retail sale is a non-IFRS measure that does not have a standardized meaning prescribed by IFRS. See the "Non-IFRS Financial Measures" section of this MD&A.

The Spirit Leaf Division demonstrated significant revenue growth year-over-year, with revenue up $790,584 and $1,196,944 in the three and six month periods ended June 30, 2019, respectively, from the same periods in the prior year. The growth in revenue is attributable to the opening of Spiritleaf-branded franchised retail cannabis stores in the three and six months ended June 30, 2019 and in the fourth quarter of 2018. Prior to opening, such Spiritleaf-branded franchised retail cannabis stores purchased millwork from Spirit Leaf, driving revenues from millwork, and once open and operating, such Spiritleaf-branded franchised retail cannabis stores generated royalties, advertising and supply and other revenues for Spirit Leaf. Additionally, once a franchised retail cannabis store opens, the franchise fee deposit that was received by Spirit Leaf for such franchise and recorded as a liability on the balance sheet of the Company is recognized as revenue.

During the three and six month periods ended June 30, 2019 the Spirit Leaf Division achieved system-wide retail sales of $4,626,946 and $6,517,391, compared to $Nil in system-wide retail sales in the same periods in the prior year. Similar to the growth in revenue, the growth in system-wide retail sales was driven by the opening of Spiritleaf-branded franchised retail cannabis stores in the three and six months ended June 30, 2019 and in the fourth quarter of 2018, thereby generating system-wide retail sales.

Performance Evaluation

To date, management of the Company evaluated the performance of the operations of the Spirit Leaf Division by reviewing the following key performance metrics:

- *Revenue*: revenue from the division in the three and six months ended June 30, 2019 was up $790,584 and $1,196,944 from the same periods in the prior year.

- *System-Wide Retail Sales*: system-wide retail sales for the division in the three and six months ended June 30, 2019 were up $4,626,946 and $6,517,391 from the same periods in the prior year.

Due to the preliminary nature of the division's operations, management has yet to institute and rely on other key performance metrics which generally may provide additional insight but that require operating corporate-owned retail cannabis stores and additional operating quarters. Management anticipates adopting additional key performance metrics in the future once additional corporate and franchise stores are opened and operated for several quarters.

Watch It! Division

The following table sets out certain selected financial information for the Watch It! Division for the three and six month periods ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
System-Wide Retail Sales(1)	**$ 2,057,538**	$ 2,192,757	**$ 3,573,923**	$ 3,978,894
Revenue	**973,138**	1,212,796	**1,786,450**	2,193,570
Cost of goods sold	**488,203**	630,539	**866,988**	1,129,809
Gross profit	**484,935**	582,257	**919,462**	1,063,761
Operating expenses				
General and administrative	**36,496**	133,195	**98,078**	183,360
Salaries, wages, and benefits	**324,233**	397,213	**668,871**	742,670
Depreciation and amortization	**165,895**	56,668	**267,248**	126,566
Sales and marketing	**858**	30,722	**2,585**	43,222
Occupancy costs	**215,708**	224,371	**300,272**	423,175
Total operating expenses	**743,190**	842,169	**1,337,054**	1,518,993
Other Expenses				
Interest expense	**68,165**	11	**110,400**	10,924
Royalty expense	**-**	-	**-**	5,040
Total other expenses	**68,165**	11	**110,400**	15,964
Net loss and comprehensive loss	**$ (326,420)**	$ (259,923)	**$ (527,992)**	$ (471,196)

Note:

(1) System-wide retail sale is a non-IFRS measure that does not have a standardized meaning prescribed by IFRS. See the “Non-IFRS Financial Measures” section of this MD&A.

The Watch It! Division experienced a decrease in revenue year-over-year, with revenue down $239,658 and $407,120 in the three and six month periods ended June 30, 2019, respectively, from the same periods in the prior year. This decline resulted primarily from the closure of two corporate-owned Watch It! retail stores subsequent to the periods in 2018.

During the three and six month periods ended June 30, 2019 the Watch It! Division achieved system-wide retail sales of $2,057,538 and $3,573,923, compared to $2,192,757 and $3,978,894 in system-wide retail sales in the same periods in the prior year. Similar to revenue, this decline was driven primarily by the closure of the two corporate-owned Watch It! retail stores subsequent to the periods in 2018.

Performance Evaluation

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

- *Revenue*: revenue from the division in the three and six months ended June 30, 2019 was down $239,658 and $407,120 from the same periods in the prior year. This decline resulted primarily from the closure of two corporate-owned Watch It! retail stores subsequent to the periods in 2018.

- *System-Wide Retail Sales*: system-wide retail sales for the division in the three and six months ended June 30, 2019 were down $135,219 and $404,971 from the same periods in the prior year. Similar to revenue, this decline was driven primarily by the closure of the two corporate-owned Watch It! retail stores subsequent to the periods in 2018.

- *Gross Profits:* gross profits from the division in the three and six months ended June 30, 2019 were down $97,322 and $144,299 from the same periods in the prior year. This decline in gross profits was driven primarily by the decline in revenue, which resulted from the closure of the two corporate-owned Watch It! retail stores subsequent to the periods in 2018.

- *Staff to Sales Ratio:* The staff to sales ratio is calculated by dividing the amount of salaries, wages and benefits incurred in a period by the revenue generated in that same period. Management uses this ratio to evaluate the value of its workforce as a function of its revenue, with a declining ratio indicating increasing revenue generating efficiency. The staff to sales ratios for the three and six month periods ended June 30, 2019 were 33.3% and 37.4% ,compared to 32.8% and 33.9% for the same periods in the periods in the prior year. This ratio increased in 2019 primarily due to the decrease in revenues, as discussed above.

- *Rent to Sales Ratio*: The rent to sales ratio is calculated by dividing the amount of occupancy costs incurred in a period by the revenue generated in that same period. Management uses this ratio to evaluate and manage the expenses of the division, with an increasing ratio indicating increasing occupancy costs associated with revenue generation. The rent to sales ratios for the three and six month periods ended June 30, 2019 were 22.2% and 16.8%, compared to 18.5% and 19.3% for the same periods in the prior year. The changes in these ratios is a result of the offsetting effects of the store closures, as outlined above, that caused decreased sales but also allowed for the reduction in occupancy costs.

Summary of Quarterly Results

The following table sets out certain selected financial information for the eight most recently completed quarters:

	Fiscal Quarter Ended							
	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17
Revenue	$ 1,775,881	$ 1,253,095	$ 2,011,460	$ 1,544,779	$ 1,224,975	$ 1,010,171	$ 1,895,382	$ 1,052,481
Net loss	$ (2,809,683)	$ (2,004,895)	$ (7,437,030)	$ (940,605)	$ (1,900,412)	$ (1,410,280)	$ (381,378)	$ (373,874)
Basic loss per share	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.01)	$ (0.03)	$ (0.01)	$ (0.01)	$ (0.01)
Diluted loss per share	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.01)	$ (0.03)	$ (0.01)	$ (0.01)	$ (0.01)

The Company has incurred losses over the last eight quarters as it implemented and executed its strategy of building an iconic Canadian retail brand and opening a chain of corporate and franchise retail cannabis stores across Canadian jurisdictions where the private distribution of cannabis is legal. Results have varied between these fiscal quarters principally because of, among other things:

(i) significant expenses and professional fees incurred in connection with the Debenture Financing in the fiscal quarter ended June 30, 2019;

(ii) the seasonal nature of the business of the Watch It! Division, which is busiest in the periods of May to August (covering a portion of the second and third fiscal quarters) and November to December (covering a portion of the fourth fiscal quarter) in each year;

(iii) revenue generated from Spiritleaf-branded franchised retail cannabis stores that opened in the three and six months ended June 30, 2019 and in the fourth quarter of 2018;

(iv) increased salaries and wages as the organization grows and enters into commercialization and operation of its Spiritleaf-branded corporate retail cannabis stores and supports the opening of Spiritleaf-branded franchised retail cannabis stores;

(v) increased marketing and branding expenses related to building and growing the Company's Spiritleaf brand;

(vi) an impairment charge of $3,526,918 recorded by the Company in the fiscal quarter ended December 31, 2018, relating to the Watch It! Division;

(vii) swings in unrealized losses or gains on marketable securities that were acquired by the Company pursuant to its transactions with strategic partners;

(viii) the implementation of IFRS 16, which increased the net loss in the 2019 fiscal quarters;

(ix) share-based compensation expenses for (a) stock options that were issued in the first and fourth quarters of 2018, and (b) warrants issued throughout the quarters to various service providers and pursuant to transactions with strategic partners; and

(x) expenses incurred in connection with the completion of the IPO in July of 2018, including associated listing expenses and professional fees incurred in the months leading up to it.

It is anticipated that certain costs are non-recurring and/or will normalize over time.

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, Cash Flows and Capital Resources

Cash Flows

	Six months ended			
	June 30, 2019		June 30, 2018	
Cash flows from (used in):				
Operating activities before working capital changes	**$**	**(4,051,943)**	$	(1,663,906)
Changes in non-cash working capital		**355,979**		105,946
Operating activities		**(3,695,964)**		(1,557,960)
Financing activities		**13,466,997**		2,508,419
Investing activities		**(7,325,636)**		(442,334)
Increase in cash		**2,445,397**		508,125
Cash and cash equivalents, beginning of period		**3,375,588**		953,055
Cash and cash equivalents, end of period	**$**	**5,820,985**	$	1,461,180

Operating Activities

Cash flows used in operating activities were $3,695,964 for the six months ended June 30, 2019, compared to $1,557,960 in the same period in the prior year, primarily due to increased expenses associated with the expansion of the Spirit Leaf Division and the significant costs incurred in connection with the Debenture Financing.

For the six months ended June 30, 2019, operating activities were affected by a net change of $355,979 (June 30, 2018 - $105,946) in non-cash working capital balances due to, among other things:

- an increase in accounts receivables of $737,675 (June 30, 2019 – decrease of $57,561), largely due to increased revenue from the Spirit Leaf Division;

- a decrease in inventory of $107,651 (June 30, 2018 – increase of $478,598) comprised of (i) a $51,460 decrease (June 30, 2018 – increase of $478,598) in merchandise inventory held by the Watch It! Division, (ii) a $323,859 increase (June 30, 2018 –$Nil) in merchandise inventory held by the Spirit Leaf Division due to the continued ramp up of franchised and corporate retail cannabis operations since the legalization of recreational cannabis in Canada on October 17, 2018, and (iii) a $380,050 decrease (June 30, 2018 –$Nil) in millwork inventory held by the Spirit Leaf Division due to the continuing build-out and opening of franchised Spiritleaf-branded retail cannabis stores that require this millwork;

- a decrease in accounts payable and accrued liabilities of $618,324 (June 30, 2018 – increase of $255,976), primarily due to the timing of payments and receipt of invoices;

- an increase in short term note payable of $250,000 (June 30, 2018 – $Nil), due to a promissory note issued by the Company to a third party in connection with the acquisition of assets by the Company from such third party;

- an increase in accretion of lease liability of $843,947 (June 30, 2018 – $Nil), due to the adoption of IFRS 16 by the Company effective January 1, 2019 and the associated treatment of lease liability thereunder;

- an increase in lease deposits of $107,396 (June 30, 2018 – decrease of $77,168), due to the establishment of additional Spiritleaf-branded stores;

- a decrease in deferred revenue of $137,783 (June 30, 2018 - $Nil), as a result of recognizing a portion of deferred revenue as retail revenue during the period on a straight-line basis over the term of the Irrevocable Commercial Rights Agreement with Auxly Cannabis Group Inc., as outlined in Note 4 of the Interim Financial Statements;

- a decrease in franchise fee deposits of $262,500 (June 30, 218 - $424,000), as a result of recognizing such franchise fee deposits as revenue in the period due to the opening of franchised Spiritleaf-branded retail cannabis stores.

Financing Activities

For the six months ended June 30, 2019, cash provided by financing activities was $13,466,997 (June 30, 2018 - $2,508,419) primarily due to the proceeds of the Debenture Financing completed during the period. The Company also recorded $4,078,750 (June 30, 2018 - $Nil) in cash provided from the issuance of share capital, net of issuance costs, related to the issuance of common shares (i) to purchase assets of proposed retail cannabis stores, (ii) to induce the Ontario Partner to enter into the partnership with the Company, and (ii) pursuant to the investment transaction with Tilray, Inc., whereby the Company issued common shares to Tilray, Inc. in consideration for Tilray, Inc. issuing Tilray Shares to the Company (collectively, the "**Financing Transactions**"). The Company recorded a corresponding similar amount as a cash use under investing activities.

Investing Activities

For the six months ended June 30, 2019, total cash used by investing activities was $7,325,636 (June 30, 2018 - $442,334), which predominantly reflects the Financing Transactions and cash used in connection therewith, and the acquisition of property, plant and equipment.

For the six months ended June 30, 2019, total cash used by investing activities was $7,325,636 (June 30, 2018 - $442,334), which predominantly reflects the Financing Transactions and cash used in connection therewith, and the acquisition of property, plant and equipment. Specifically, $1,028,681 (June 30, 2018 - $442,334) was used to acquire property and equipment, with the increase resulting from new Spiritleaf store build outs. Tilray Shares in the amount of $1,500,000 (June 30, 2018 - $Nil) were acquired in exchange for the Corporation's common shares for the same amount. Costs in the amount of $1,251,850 (June 30, 2018 - $Nil) were incurred in connection with a franchise inducement. Another $2,402,026 (June 30, 2018 - $Nil) and $1,143,079 (June 30, 2018 - $Nil) of costs were incurred to acquire store permits and franchise store permits, respectively.

Liquidity and Capital Resources

The unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2019 are prepared by management in accordance with IFRS on a going concern basis, which assumes that the Company will be able to continue to operate for the foreseeable future. However, the Company is exposed in varying degrees to a variety of financial risks, including liquidity risk and market risks with respect to its ability to raise capital through equity markets under acceptable terms and conditions.

The Company has incurred losses since incorporation and as of June 30, 2019 had an accumulated deficit of $18,059,238 (June 30, 2018 - $12,984,037). The Company is in the development stage of expanding by opening corporate Spiritleaf-branded retail cannabis stores and supporting the opening of franchised Spiritleaf-branded retail cannabis stores across Canada.

Liquidity is primarily influenced by the operational performance of franchised and corporate Spiritleaf-branded retail cannabis stores and Watch It! retail stores, the level of spending on branding and marketing initiatives, the level of spending on building-out and starting operations of corporate Spiritleaf-branded retail cannabis stores, the ability to obtain external sources of financing, and sales of the Company's products. The Company's objectives when managing its liquidity and capital resources are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk.

The Company monitors its liquidity on a continuous basis to ensure there is sufficient capital to meet business requirements and to provide shareholder value. At June 30, 2019, the Company had sufficient cash on hand to meet its short-term liabilities and commitments as they become due. In the longer term, the Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flow and net income, or raise additional capital and then generate positive cash flow and net income. There can be no assurance that equity or debt financings will be available to the Company in the future on terms satisfactory to the Company. Circumstances that could impair the Company's ability to raise additional funds include general economic conditions and its ability to expand operations within the recreational cannabis industry in Canada.

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 liabilites	675,937	675,937	-	-	-
Short term note payable	250,000	250,000			
Payable to related party	208,508	208,508	-	-	-
Unredeemed gift card liability	164,956	164,956	-	-	-
Lease liabilities	10,531,400	1,692,479	3,693,966	3,232,221	1,912,734

As at June 30, 2019, the Company has collected $1,580,100 of franchise fee deposits and recorded them as a liability. 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.

Statement of Financial Position

The following table sets out certain selected financial position data as at June 30, 2019 and December 31, 2018:

		As at June 30, 2019 (Unaudited)		As at December 31, 2018 (Audited)
Total Current Assets	**$**	**11,920,640**	$	8,197,564
Total Non-Current Assets		**18,471,420**		3,252,105
Total Assets		**30,392,060**		11,449,669
Total Current Liabilities		**3,407,557**		2,043,442
Total Non-Current Liabilities		**18,711,032**		2,790,784
Total Liabilities		**22,118,589**		4,834,226
Total Shareholders' Equity of Parent		**8,343,322**		6,661,561
Non-Controlling Interest		**(69,851)**		(46,118)
Total Shareholders' Equity	**$**	**8,273,471**	$	6,615,443

As at June 30, 2019, the Company had total assets of $30,392,060, an increase of $18,942,391 compared to $11,449,669 at the end of December 31, 2018. The substantial increase in total assets resulted primarily from the cash raised through the Debenture Financing and the adoption of IFRS 16 effective January 1, 2019, which resulted in the Company recognizing leases as right of use assets (representing its right to use the underlying assets).

As at June 30, 2019, the Company had total liabilities of $22,118,589, an increase of $17,284,363 compared to $4,834,226 at the end of December 31, 2018. The increase in total liabilities resulted primarily from the convertible debenture debt issued through the Debenture Financing and the adoption of IFRS 16 effective January 1, 2019, which resulted in the Company recognizing leases as lease liabilities (representing its obligation to make lease payments).

Off-Balance Sheet Arrangements

As of the date of this MD&A, the Company does not have any 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 directors and executive officers of the Company. Compensation of key management personnel may include short-term and long-term benefits as applicable, including salaries, bonuses, consulting fees and stock options. Compensation provided to current key management are as follows:

		3 months ended June 30, 2019		3 months ended June 30, 2018
Short-term benefits	**$**	**101,380**	$	66,000
Long-term benefits (*)				
	$	**101,380**	$	66,000

(*) 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 June 30, 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 June 30, 2019, the Company paid $7,500 (June 30, 2018 - $11,379) in rent for office space to a company related to the Company by virtue of a common executive officer and director. During the same period, the Company entered into a new lease agreement with the related company in respect of the office space, effective March 1, 2019, for a term of 5 years. Pursuant to the new lease agreement, the rent payable by the Company to the related company will be $30,000 per year for the first three years of the lease, and $32,070 per year for the last two years. The yearly rent was based on a fair value assessment completed by an independent appraiser.

During the three months ended June 30, 2019, the Company issued 125,000 common shares, at a deemed value of $25,000, to the chief financial officer and director of the Company as a bonus in recognition of such individual in connection with the Debenture Financing.

As at June 30, 2019, payable to a related party was a non-interest-bearing, unsecured, due on demand loan of $208,508 (December 31, 2018 - $208,779) for costs incurred for the build-out of the Spiritleaf-branded corporate retail cannabis store opened by Spirit Leaf Macleod.

Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value, issuable in series. As at June 30, 2019, the Company had 206,236,295 common shares and no preferred shares issued and outstanding.

The following table sets out the share capital structure of the Company as of the date of this MD&A, August 27, 2019:

Securities Outstanding	Number / Principal Amount Outstanding	Expiry Date	Exercise / Conversion Price	Number of Common Shares Outstanding / Issuable Upon Conversion or Exercise
Common shares	206,236,295			**206,236,295**
12% Senior Secured Convertible Debentures	$ 10,000,000.00	June 30, 2022	$ 0.25	**40,000,000**
Stock Options	8,187,500	February 28, 2023	$ 0.10	8,187,500
Stock Options	5,500,000	December 10, 2023	$ 0.20	5,500,000
Stock Options	280,000	June 1, 2024	$ 0.20	280,000
Stock Options	120,000	June 24, 2024	$ 0.20	120,000
Agent's Options	2,500,000	July 31, 2020	$ 0.15	2,500,000
Compensation options	2,292,800	November 24, 2020	$ 0.25	2,292,800
Options				**18,880,300**
Warrants	150,000	December 31, 2019	$ 0.10	150,000
Warrants	100,000	December 31, 2019	$ 0.10	100,000
Warrants	500,000	April 3, 2023	$ 0.10	500,000
Warrants	300,000	April 3, 2023	$ 0.10	300,000
Warrants	100,000	May 11, 2020	$ 0.10	100,000
Warrants	600,000	May 11, 2020	$ 0.15	600,000
Warrants	3,750,000	June 22, 2020	$ 0.30	3,750,000
Warrants	661,765	June 22, 2020	$ 0.30	661,765
Warrants	100,000	July 23, 2020	$ 0.30	100,000
IPO Warrants	12,500,000	July 31, 2020	$ 0.30	12,500,000
Warrants	3,529,412	July 31, 2020	$ 0.30	3,529,412
Warrants	7,500,000	July 31, 2020	$ 0.30	7,500,000
Warrants	360,500	August 28, 2020	$ 0.28	360,500
Debenture Unit Warrants	20,000,000	November 24, 2020	$ 0.25	20,000,000
Warrants	100,000	December 10, 2020	$ 0.30	100,000
Warrants	150,000	December 10, 2020	$ 0.20	150,000
Warrants				**50,401,677**
Fully diluted				**315,518,272**

Common Shares

During the three months ended June 30, 2019, the Company issued an aggregate of 12,981,299 common shares, comprised of (i) 287,500 common shares issued at a price of $0.10 per share pursuant to stock option exercises; (ii) 250,000 common shares issued at a price of $0.20 per share in satisfaction of bonuses granted by the Company to two individuals in recognition of their contributions in connection with the Debenture Financing; (iii) 5,000,000 common shares issued at a price of $0.20 per share to the Ontario Partner pursuant to the partnership arrangement between the parties; and (iv) 7,443,799 common shares issued at an aggregate value of $1.5 million to Tilray, Inc. pursuant to the terms of the investment agreement entered in December 2018, as amended.

Stock Options

During the three months ended June 30, 2019, a total of 400,000 options were granted at a price of $0.20 per share to employees and an officer of the Company pursuant to the Company's stock option plan. During the same period, 167,500 options were exercised and 50,000 options were forfeited without being exercised. As at June 30, 2019, the Company had 14,097,500 options outstanding.

Convertible Debentures

On May 24, 2019, the Company completed the first closing of its short form prospectus offering (the "**Debenture Financing**") of debenture units (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 Issuer (each, a "**Convertible Debenture**") 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 Issuer (each, a "**Unit Warrant**"), each entitling the holder thereof to purchase one common share in the capital of the Issuer at an exercise price equal to $0.25 until November 24, 2019. The Debenture Financing was made through a syndicate of agents (the "**Agents**"). In connection with the Debenture Financing, the Issuer 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 Issuer at an exercise price of $0.25 per share until November 24, 2020.

On June 7, 2019, the Company completed the second and final closing of the Debenture Financing for additional gross proceeds of $730,000, resulting in aggregate proceeds to the Company under the Debenture Financing of $10 million. In connection with the second and final closing, the Company issued to the Agents an aggregate of 204,400 Compensation Options.

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, and IFRIC 4, Determining whether an arrangement contains a lease. 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, effecting January 1, 2019 the Company has recognized a significant increase to both assets and liabilities on its Interim Condensed 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 periods, 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.

Critical Accounting Estimates

A summary of the Company's significant accounting policies is contained in Note 2 to the 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 the 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 ("**ECLs**"). 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-owned store in the Spirit Leaf Division and the Watch it! Division 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 June 30, 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 June 30, 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 retail cannabis stores and other franchise retail cannabis 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 branding, marketing, sales and client support. The Company may not have sufficient resources to maintain branding, 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 operations of the Spirit Leaf Division, 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 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 June 30, 2019. 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 Cap in Ontario

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.