Inner Spirit Holdings Ltd.

Management's Discussion and Analysis

For the year ended December 31, 2019

(Expressed in Canadian Dollars)

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Introduction

The following Management's Discussion and Analysis ("**MD&A**") of the financial results of Inner Spirit Holdings Ltd. ("**Inner Spirit**" or the "**Company**") should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019 (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 May 13, 2020.

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.

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 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.

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.

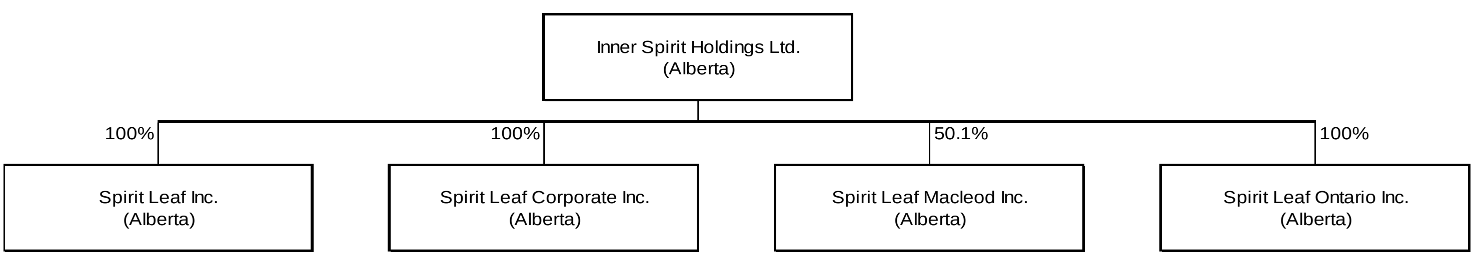
Corporate Overview

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.

As at the date of this MDA, 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) Spirit Leaf Ontario Inc. ("**Spirit Leaf Ontario**"), which is wholly-owned by the Company. The subsidiaries were incorporated under the laws of the Province of Alberta (other than Spirit Leaf Ontario which was incorporated under the laws of the Province of Ontario), are headquartered in Calgary, Alberta, and are extra-provincially registered in the various jurisdictions in which they operate. The Company had a fifth subsidiary, Watch It! Consolidated Ltd. ("**Watch It!**"), which was wholly-owned by the Company; however, Watch It! filed a Notice of Intention to Make a Proposal pursuant to the provisions of Division I of Part III of the Bankruptcy and Insolvency Act (Canada) on November 29, 2019. Watch It! was deemed bankrupt on December 31, 2019, and the Company closed its corporate Watch It! operations, and the remaining assets and trademark were sold to a former franchise owner who continues to independently operate two stores and the related e-commerce business.

The organizational chart for the Company is as follows:



Description of the Business

The Company current operations consist solely of the Spirit Leaf operations. The Company's historical Watch It! operations are reflected in the Financial Statements as discontinued operations.

The Spirit Leaf operations are comprised of: (i) the business of Spirit Leaf, the franchise operations 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, Ontario, and Newfoundland; (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 and Saskatchewan. 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 December 31, 2019, a total of 43 Spiritleaf-branded retail cannabis stores were open and operating across Canada:

- 36 retail cannabis stores in Alberta, 9 of which were wholly-owned corporate stores, 1 joint venture corporate store, and 26 franchise retail stores;
- 5 Spiritleaf-branded franchised retail cannabis stores in British Columbia;
- 1 Spiritleaf-branded franchised retail cannabis store in Saskatchewan; and
- 1 Spiritleaf-branded licensed retail cannabis in Ontario.

As at the date of this MD&A, a total of 46 Spiritleaf-branded retail cannabis stores are open and operating across Canada:

- 39 retail cannabis stores in Alberta, of which are 9 wholly-owned corporate stores, 1 joint venture corporate store, and 29 franchise retail stores;
- 5 Spiritleaf-branded franchised retail cannabis stores in British Columbia;
- 1 Spiritleaf-branded franchised retail cannabis store in Saskatchewan; and
- 1 Spiritleaf-branded licensed retail cannabis in Ontario.

On April 30th, 2020, the Company was granted its retail operator license and has one corporate location on Robertson Road in Ottawa has been posted on the Alcohol and Gaming Commission of Ontario's (AGCO's) website with its Retail Store Authorization (RSA) Application in progress. 12 franchise locations have also been posted on the AGCO's website with their RSA application status reported as in progress. The build-out of the Issuer's anticipated flagship Spiritleaf-branded retail franchise cannabis store on Bloor Street, Toronto is complete, and a franchise partner has completed their build-out of a franchise location on College Street. The Issuer has 7 Ontario locations that it is leasing, in anticipation of opening corporately owned stores in Ontario if and when doing so is permitted under applicable laws and regulations and all remaining Ontario locations that the Company leased were sub-leased to franchise partners effective January 1, 2020 for a total of 24 initial and potential Ontario Spiritleaf locations.

On April 1, 2020, the Company announced it has signed a master agreement with a wholly owned subsidiary (the "Atlantic Subsidiary") of Atlantic Cultivation Limited ("Atlantic Cultivation") for the operation of franchised Spiritleaf branded retail cannabis stores in Newfoundland and Labrador. Atlantic Cultivation has plans to open several Spiritleaf stores in the near term. The Topsail Road store in St. John's is under construction and expected to open in June 2020 at 673 Topsail Road. Additional stores under construction and being prepared for opening in the province later this year include two in St. John's, one in Gander and one in Grand Falls-Windsor.

The AGLC announced that it will limit the number of retail cannabis licences issued to a single group of persons (which includes the Spiritleaf brand) to a maximum of 45 licenses until October 17, 2020. As of March 31, 2020, a total of 45 retail cannabis licenses have either been obtained or applied for in Alberta by Spiritleaf branded locations.

On October 29, 2019, the Saskatchewan Liquor and Gaming Authority (SLGA) announced that Saskatchewan will be moving forward with a phased-in open market system when allocating future cannabis retail permits. According to the SLGA, it will begin accepting applications for cannabis retail permits in communities with populations less than 2,500 in April 2020 and will begin accepting permit applications for stores in all communities in the province in September 2020. The SLGA further indicated that proponents will be able to apply for permits in communities that were previously identified as eligible for permits but did not proceed, and that communities will be able to opt out of having cannabis retail stores in their community. Spirit Leaf Corporate has leased two locations in Saskatoon and one location in Regina that it intends to operate as corporate owned stores.

On December 12, 2019, the Government of Ontario announced that it is taking steps to move to an open market for retail cannabis stores beginning in January 2020. The Alcohol and Gaming Commission of Ontario (AGCO) will begin accepting operator licence applications from prospective retailers on January 6, 2020, followed by store authorization applications on March 2, 2020. Store authorizations from this open application process are expected to be issued beginning in April, at an initial rate of approximately 20 per month. Until August 31, 2020, retail operators may own a maximum of 10 cannabis stores, increasing to 30 in September 2020 and 75 in September 2021.

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. To remain competitive, the

Company 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, 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.

Update to Previously Disclosed Forward-looking Statements

The short form prospectus of the Company dated May 17, 2019 (the " Prospectus"), under the section Minimum Offering, contains the following statements indicating that the Company expects:

- to realize positive cash flows from operating activities beginning in January 2020 and continuing thereafter.
- that Spiritleaf-branded retail cannabis stores opened by the Company and franchisees of Spirit Leaf will achieve a range of between $200,000 to $250,000 in monthly gross sales while in operation, as per the Corporation's cash flow forecasts.

As at the date of this MDA, the Company has not yet achieved positive cash flow and the stores have achieved a range of between $16,000 and $756,000 in monthly gross sales while in operation.

Selected Annual Information

The following table provides a brief summary of the Company' financial operations. For more detailed information, refer to the Company's audited consolidated financial statements. The 2018 and 2017 financial numbers below have been restated below as a result of the discontinued operations that occurred in 2019.

	Year Ended 31-Dec-19	Year Ended 31-Dec-18	Period Ended 16-Mar-17 to 31-Dec-17
Revenue - Continuing operations	$ 8,114,268	$ 624,216	$ 1,146
Revenue - Discontinued operations	4,367,559	5,167,169	2,911,126
Operating loss before other expenses - Continuing operations	(5,760,445)	(4,074,788)	(944,499)
Net loss - Continuing operations	(10,849,162)	(7,005,308)	(975,564)
Net loss - Discontinued operations	(676,006)	(4,689,665)	(359,618)
Net loss and comprehensive loss	(11,525,168)	(11,694,973)	(1,335,182)
Loss per share - Continuing operations	($0.05)	($0.05)	($0.03)
Loss per share - Discontinued operations	($0.00)	($0.03)	($0.01)
Basic and diluted loss per share	($0.06)	($0.09)	($0.03)
Total assets	$ 22,749,708	$ 11,449,669	$ 5,904,732
Total long-term liabilities	$ 16,941,549	$ 2,790,784	$ 1,460,100

Discontinued Operations - Watch It!

Watch It! filed a Notice of Intention to Make a Proposal pursuant to the provisions of Division I of Part III of the Bankruptcy and Insolvency Act (Canada) on November 29, 2019. Watch It! was deemed bankrupt on December 31, 2019, and the Company closed its corporate Watch It! operations, and the remaining assets and trademark were sold to a former franchise owner who continues to independently operate two stores and the related e-commerce business. The business of Watch It! was comprised 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 were located in Alberta, British Columbia, Saskatchewan and Ontario.

During the year ended December 31, 2018, the Company recorded an impairment charge totalling $3.5 million on the intangible (including goodwill) and tangible assets of Watch It!, thus the larger loss in that year versus the year ended December 31, 2019 and 2017.

Changes in financial results year over year

2019 versus 2018

The significant increase in total assets and liabilities for the year ended December 31, 2019 is mainly the result of two factors:

- Completion of a $10 million convertible debenture financing;
- Adoption of IFRS 16 – Leases, which added $8.2 million to the assets in right to use assets and net investment in subleases, and which added $9.0 million to the lease liabilities.

The increase in revenue from continuing operations for the year ended December 31, 2019 versus 2018 was a result of the commencement of significant operations and revenue from Spirit Leaf after the legalization of cannabis in Canada. The decrease in loss for the year ended December 31, 2019,is a result mainly of the significant increase in revenue from Spirit Leaf after legalization of cannabis, offset by the following increase in expenses:

- Increased interest expense from the $10 million of debentures issued during the year;
- Changes to accounting policies from the adoption of IFRS 16, causing accretion of right to use assets;
- Additional expenses in ramping up Spirit Leaf operations;
- Significant professional fees, financing fees, and other costs were incurred for the debenture financing;
- Significant lease carrying costs were incurred for potential locations for corporate and franchised retail cannabis stores; and
- Changes in the direction of the Company's business with resources focussed on Spiritleaf and winding-up Watch It!.

2018 versus 2017

The increase in revenue from continuing operations for the year ended December 31, 2018 versus 2017 was a result of the Company operating for the full 2018 year and due to the commencement of significant operations and revenue from Spirit Leaf in the fourth quarter of 2018, after legalization of cannabis. The increase in loss is a result mainly of the following:

- Loss on discontinued operations of $4.7 million;
- Unrealized loss on marketable securities of $2.1 million;
- Share-based compensation of $0.8 million; and
- Additional expenses in ramping up Spirit Leaf operations.

Results of Operations

The results of operations as discussed in this section refers to continuing operations, unless otherwise disclosed as discontinued operations. The following table summarizes the consolidated results of operations for the years ended December 31, 2019 and 2018:

	Year Ended 31-Dec-19	Year Ended 31-Dec-18	Period Ended 16-Mar-17 to 31-Dec-17
Revenue - Continuing operations	$ 8,114,268	$ 624,216	$ 1,146
Revenue - Discontinued operations	4,367,559	5,167,169	2,911,126
Operating loss before other expenses - Continuing operations	(5,760,445)	(4,074,788)	(944,499)
Net loss - Continuing operations	(10,849,162)	(7,005,308)	(975,564)
Net loss - Discontinued operations	(676,006)	(4,689,665)	(359,618)
Net loss and comprehensive loss	(11,525,168)	(11,694,973)	(1,335,182)
Loss per share - Continuing operations	($0.05)	($0.05)	($0.03)
Loss per share - Discontinued operations	($0.00)	($0.03)	($0.01)
Basic and diluted loss per share	($0.06)	($0.09)	($0.03)
Total assets	$ 22,749,708	$ 11,449,669	$ 5,904,732
Total long-term liabilities	$ 16,941,549	$ 2,790,784	$ 1,460,100

During the year ended December 31, 2019, the Company achieved system-wide retail sales of $29.4 million (2018 - $0.96 million). The growth in system-wide retail sales was driven by the opening and operating of 43 Spiritleaf-branded franchised retail cannabis stores in the year ended December 31, 2019 and in the fourth quarter of 2018.

Revenue

Total revenue for the year ended December 31, 2019 was $8.1 million (2018 - $0.6 million). Revenue increased by over $7.5 million in 2019, representing an increase of 1200%. The growth in total revenue is attributable to the opening and operation of 43 Spiritleaf-branded franchised retail cannabis stores during the year ended December 31, 2019. Prior to opening, such Spiritleaf-branded franchised retail cannabis stores purchased millwork from the Company, deriving 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. 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.

Gross Profit

Gross profit for the year ended December 31, 2019 was $3.7 million (2018 - $0.2 million). Gross profit increased by $3.5 million, representing a 1864% 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 year ended December 31, 2019 were $9.5 million (2018 - $4.3 million). The significant increases from the prior year was 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 carrying leases for potential locations for corporate and franchised retail cannabis stores.

For the year ended December 31, 2019, the adoption of IFRS 16 (as defined herein) with respect to the accounting treatment of leases resulted in right of use asset depreciation of $0.8 million (2018 - $nil).

Other Expenses

Total other expenses for the year ended December 31, 2019 were $5.1 million (2018- $2.9 million). The increase over the prior year relates primarily to 1) the finance expenses of $0.8 million (2018- $nil), primarily from interest incurred on the convertible debentures; 2) interest expense (accretion) - leases of $1.2 million (2018 - $nil) from the adoption of IFRS 16 by the Company effective January 1, 2019, and 3) the financial liability expense of $0.3 million (2018 – $nil) related to the adoption of IFRS 16 guarantee of certain leases.

Net loss and comprehensive loss

For the year ended December 31, 2019, the Company reported a net loss and comprehensive loss of $11.5 million (2018 - $11.7 million) The decrease in net loss and comprehensive loss were principally due to the increase in revenue from Spirit Leaf after legalization of cannabis and lower loss on discontinued operations compared to 2018, offset by the following additional expenses: 1) higher operating expenses incurred to set up and expand Spirit Leaf (as discussed below); 2) accrued interest expense on the $10 million debentures issued during the year; 3) accretion of right of use assets due to adoption of IFRS 16; 4) Significant lease carrying costs were incurred for potential locations for corporate and franchised retail cannabis stores.

Performance Evaluation

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

- *Revenue*: revenue from Spirit Leaf in the year ended December 31, 2019 was up $7.5 million from the prior year.
- *System-Wide Retail Sales*: system-wide retail sales in the year ended December 31, 2019 were up $28.4 million from the prior year.

Due to the preliminary nature of Spirit Leaf'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.

Summary of Quarterly Results

The following table sets out certain selected financial information for the eight most recently completed quarters. The historical quarterly information has been restated as a result of the discontinued operations in 2019.

	Quarter Ended							
	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18	31-Mar-18
Revenue - Continuing operations	$ 3,805,074	$ 3,066,668	$ 802,743	$ 439,783	$ 224,065	$ 358,575	$ 12,179	$ 29,397
Revenue - Discontinued operations	$ 1,656,137	$ 924,972	$ 973,138	$ 813,312	$ 1,787,394	$ 1,186,205	$ 1,212,796	$ 980,774
Net loss - Continuing operations	$ (4,056,009)	$ (2,506,637)	$ (2,483,193)	$ (1,803,323)	$ (3,362,735)	$ (803,077)	$ (1,627,432)	$ (1,212,064)
Net loss - Discontinued operations	$ (164,328)	$ 16,314	$ (326,420)	$ (201,572)	$ (4,098,934)	$ (119,535)	$ (272,980)	$ (198,216)
Net and comprehensive loss	$ (4,220,337)	$ (2,490,323)	$ (2,809,613)	$ (2,004,895)	$ (7,461,669)	$ (922,612)	$ (1,900,412)	$ (1,410,280)
Basic loss per share	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.01)	$ (0.02)	$ (0.01)
Diluted loss per share	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.01)	$ (0.02)	$ (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 were incurred from share based compensation, accretion of right of use assets, financial guarantee liability expense, convertible debenture accretion, and interest expense (accretion) on leases, in the quarter ended December 31, 2019;

(ii) revenue generated from Spiritleaf-branded franchised retail cannabis stores that opened in the 2019 year and in the fourth quarter of 2018;

(iii) 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;

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

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

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

(vii) 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

(viii) 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 of the above expenses 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.

Fourth Quarter Results

The fourth quarter results as discussed in this section refers to continuing operations for the three months ended December 31, 2019 and 2018, unless otherwise disclosed as discontinued operations.

Revenue

Total revenue for the quarter ended December 31, 2019 was $3.8 million (2018 - $0.2 million). Revenue increased by $3.6 million in 2019, representing an increase of 1598%. The growth in total revenue is attributable to the operation of 43 Spiritleaf-branded franchised retail cannabis stores during the quarter ended December 31, 2019 while in the quarter ended December 31, 2018 the Company was still in the process of opening its first stores.

Loss on discontinued operations

Loss on discontinued operations for the quarter ended December 31, 2019 was $0.2 million (2018- $4.1 million). The decrease from the prior year relates primarily to the Company recording an impairment charge totalling $3.5 million on the intangible (including goodwill) and tangible assets of Watch It! for the quarter ended December 31, 2018.

Net loss and comprehensive loss

For the quarter ended December 31, 2019, the Company reported a net loss and comprehensive loss of $4.2 million (2018 - $7.5 million) The decrease in net loss and comprehensive loss were principally due to the increase in revenue from Spirit Leaf after legalization of cannabis and lower loss on discontinued operations compared to 2018, offset by the following additional expenses recorded in the 2019 quarter: 1) share-based compensation expense 2) financial guarantee liability expense; 3) interest expense on the convertible debentures issued during the year; 4) convertible debenture accretion expense; 5) accretion of right of use assets due to adoption of IFRS 16; and 6) the right of use depreciation due to the adoption of IFRS 16.

Liquidity, Cash Flows and Capital Resources

Cash Flows

For the years ended December 31,		2019		2018
Cash provided by (used in) the following activities:				
Operating activities before working capital changes	$	(4,700,081)	$	(4,447,673)
Changes in non-cash working capital		(460,023)		(1,511,252)
Operating activities		(5,160,104)		(5,958,925)
Financing activities		6,912,078		8,818,988
Investing activities		(1,901,508)		(1,637,530)
Increase in cash		(149,534)		1,222,533
Cash and cash equivalents, beginning of year		2,175,588		953,055
Cash and cash equivalents, end of year	$	2,026,054	$	2,175,588

In addition to the cash and cash equivalents of $2.0 million, as presented on the statement of cash flow, the Company as a short-term deposit of $1.2 million that is redeemable into cash at any time, thus the Company has total cash and equivalents at its discretion of $3.2 million.

Operating Activities

For the year ended December 31, 2019, cash flows used in operating activities were $5.2 million (2018 - $6.0 million), primarily due to increased expenses associated with the expansion of Spirit Leaf and the significant costs incurred in connection with the debenture financing.

For the year ended December 31, 2019, operating activities were affected by a net increase in non-cash working capital balances of $0.5 million (2018 – $1.5 million) mainly as a result of the following items:

- an increase in accounts receivables of $0.4 million (2018 – $0.5 million), largely due to increased revenue from Spirit Leaf;
- a decrease in lease deposits of $0.3 million (2018 – increase of $1.1 million), largely due to the adoption of IFRS 16;
- a decrease in inventory of $1.2 million versus an increase of $2.0 million in 2018. In 2019, the increasing sales of inventory occurred as 43 Spirit Leaf stores were open and operating, whereas in 2018 inventory was being accumulated in expectation of the opening of operation of these stores. As well, in 2018 millwork inventory was being accumulated and held by Spirit Leaf due to the continuing build-out and opening of franchised Spiritleaf-branded retail cannabis stores that require this millwork;
- a decrease in franchise fee deposits of $1.0 million (2018 – increase of $1.4 million), as a result of recognizing such franchise fee deposits as revenue in the year due to the opening of franchised Spiritleaf-branded retail cannabis stores.
- a decrease in accounts payable and accrued liabilities of $0.4 million (2018 – increase of $0.8 million), as revenue in Spirit Leaf continued to increase and a $10 million convertible debenture financing was completed, providing the Company to turnover payables quickly.

Financing Activities

For the year ended December 31, 2019, cash provided by financing activities was $6.9 million (2018 - $8.8 million) primarily due to the $10 million gross proceeds of the debenture financing completed during the year. The Company also recorded $0.03 million (2018 - $9.1 million) in cash provided from the issuance of share capital, net of issuance costs, following the exercise of certain options. The issuance of $9.1 million of common shares in 2018 was used for the following activities: i) to purchase assets of proposed retail cannabis stores; ii) to induce the Ontario Partner to enter into the partnership with the Company; and iii) 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. Lease payments used $1.7 million (2018 - $nil) of cash during the year. The Company also provided loans of $0.7 million (2018 - $nil) to franchise partners

Investing Activities

For the year ended December 31, 2019, total cash used by investing activities was $1.9 million (2018 - $1.6 million), which predominantly reflects the financing activities discussed above and cash used in connection therewith, and the acquisition of property, plant and equipment. Specifically, $2.3 million (2018 - $1.4 million) was used to acquire property and equipment, with the increase resulting from new Spiritleaf store build outs. Cash of $1.2 million (2018 - $nil) was provided from the sale of marketable securities. Cash of $0.5 million (2018 - $nil) was used to acquire store permits, and another $0.3 million (2018 - $nil) was used for franchise inducement.

Liquidity and Capital Resources

The Financial Statements for the years ended December 31, 2019 and 2018 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 December 31, 2019 had an accumulated deficit of $24.2 million (2018 - $13.0 million). 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, 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 December 31, 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

The Company has two retail store leases that were entered into during the year ended December 31, 2019 and were immediately subleased for the remaining term of the head leases at the same rental amount. The commencement date of these leases was January 1, 2020 and as such the two retail stores were not available for use during the year; therefore, they do not form a part of the leases disclosed in the consolidated financial statements.

The lease obligations on these two leases (undiscounted) is as outlined below:

		Spirit Leaf
2020	$	205,360
2021	$	207,004
2022	$	208,681
2023	$	210,391
Thereafter	$	904,911

Statement of Financial Position

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

As at December 31,		2019		2018
Total Current Assets	$	7,200,673	$	8,197,564
Total Non-Current Assets		15,549,035		3,252,105
Total Assets		22,749,708		11,449,669
Total Current Liabilities		4,087,646		2,043,442
Total Non-Current Liabilities		16,941,549		2,790,784
Total Liabilities		21,029,195		4,834,226
Total Shareholders' Equity of Parent		2,052,132		6,661,561
Non-Controlling Interest		(331,619)		(46,118)
Total Shareholders' Equity	$	1,720,513	$	6,615,443

As at December 31, 2019, the Company had total assets of $22.7 million, an increase of $11.3 million compared to $11.4 million 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 December 31, 2019, the Company had total liabilities of $21.0 million, an increase of $16.2 million compared to $4.8 million at the end of December 31, 2018. The increase in total liabilities resulted primarily from the convertible debentures issued 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

Key management

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 and directors are as follows:

	2019	2018
Short-term benefits	$ 401,210	$ 364,100
Long-term benefits (*)	134,934	61,171
	$ 536,144	$ 425,271

(*) This is the share-based compensation expense relating to the options awarded to directors under the Company's stock option plan. A quarter of those options vested immediately upon issuance and thereafter a quarter at each annual anniversary date of the issuance of those options.

Other related party transactions

During the year ended December 31, 2019, the Company paid $40,000 (2018 - $43,796) in rent for office space to a company related to the executive officer and director. The yearly rent was based on a fair value assessment completed by an independent appraiser. The Company also paid fees to a law firm of which a director is an associate.

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

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 December 31, 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, May 13, 2020.

Securities Outstanding	Number/Principal Amount Outstanding	Expiry Date	Exercise Price	Number of Common Shares Outstanding/Issuable Upon Conversion or Exercise
Common shares	229,090,837			229,090,837
12% Senior Secured Convertible Debentures	$ 10,000,000	June 30, 2022	$0.25	40,000,000
Stock option plan	15,477,500	February 28, 2023 to June 24, 2024	$0.10 to $0.20	15,477,500
Agent's options	4,792,800	July 31, 2020 to November 24, 2020	$0.15 to $0.25	4,792,800
Options	20,270,300			20,270,300
Warrants	14,510,500	December 31, 2019 to December 10, 2020	$0.10 to $0.30	14,510,500
Debenture Unit Warrants	20,000,000	November 24, 2020	$0.25	20,000,000
Warrants	34,510,500			34,510,500
Fully diluted				323,871,637

Common Shares

During the year ended December 31, 2019, the Company issued 20,056,771 common shares.

Stock Options

During the year ended December 31, 2019, the Company granted 2,065,000 options. During the year ended, December 31, 2019, 287,500 options were exercised at an exercise price of $0.10 per share, and 660,000 options with an exercise price of $0.10 per share were forfeited, as a result of discontinued operations.

Warrants

During the year ended December 31, 2019, the Company issued 2,792,800 warrants for services, and 20,000,000 convertible debenture warrants, as discussed below. Subsequent to the year ended, December 31, 2019, 950,000 warrants with exercise prices of $0.10 - $0.15 per share, expired unexercised.

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

The Company applied IFRS 16 with a date of initial application of January 1, 2019. As a result, the Company has changed its accounting policy for lease contracts as detailed below.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continued to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes are also disclosed below.

Under the modified retrospective approach, the cumulative effect of initial application is recognized in retailed earnings at January 1, 2019. However, the Company elected to use an expedient, available on initial application, whereby both the lease obligation and the right-of-use asset are established at the discounted present value of qualifying lease payments at the date of application, being January 1, 2019. Under this method, there is no adjustment to opening retained earnings (deficit) and comparative 2018 figures are not restated.

The Company also applied the following practical expedients available in the standard whereby (i) the new definition of a lease is only applied to those contracts previously identified as leases; (ii) applied a single discount rate to a portfolio of leases with similar characteristics and (iii) used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Company applied the two exceptions to the on-balance sheet recognition and measurement model and elected not to apply the lessee accounting model to:

- Leases with a lease term of 12 months or less. This election is made by class of underlying asset.
- Leases for which the underlying asset is of low value when it is new (even if the group of leases is material). Individual amounts less than US$5,000 are excluded. Again, this election can be made on a lease-by-lease basis.

At transition, lease liabilities were measured at the present value of the remaining lease payments discounted at the Company's incremental borrowing rate as at January 1, 2019. The weighted-average incremental borrowing rate was determined to be 17.95%. The right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Prior to the adoption of IFRS 16, future operating lease obligations were disclosed in the commitments and contingencies note.

Impact on Financial Statements:

On the application date of IFRS 16, the Company had the following leases in place:

(a) various leases for its corporate retail stores and a lease for an office premises;
(b) a lease for a retail store that was sub-leased. This sub-lease was determined to be a finance lease (see note 7);
(c) a corporate retail store and an office premises was determined to be short-term leases and were excluded; and,
(d) there were no low value leases.

The following table shows a reconciliation of the operating lease commitment at December 31, 2018 as disclosed in the Financial Statements to the opening balance of lease liabilities at January 1, 2019 upon application of IFRS 16:

	January 1, 2019
Operating lease commitments disclosed as at December 31, 2018	12,494,176
Less: Variable lease payments and short-term leases not included in the measurement of lease liability	(3,809,838)
Undiscounted minimum lease payments at January 1, 2019	8,684,338
Discounted using the incremental borrowing rate at January 1, 2019	17.95%
Lease liability recognized as at January 1, 2019 (Note 7)	4,997,807

The incremental borrowing rate of 17.95% was determined based on reference to market interest rates used by participants when valuing real estate.

Policy applicable after January 1, 2019:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involved the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and,
- the Company has the right to direct the use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
    - the Company has the right to operate the asset; or
    - the Company designed the asset in a way that predetermined how and for what purpose it will be used.

The policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocated the consideration to each lease component on the basis of their relative stand-alone prices. The Company's leases are comprised of retails stores and office premises that generally do not have any non-lease components and therefore they are evaluated as a single lease component.

The Company recognizes a right-of-use asst and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the underlying asset or the site on which it is located, less any lease. Currently, the Company does not have any such obligations for its retail stores and office premises.

The right-of-use asset is subsequently deprecated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee (none currently); and,
- the exercise price under a purchase option that the Company is reasonably certain to exercise (none exists currently), lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, an penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease terms of 12 months or less) and leases of low-value assets (individual amounts of less than US$ 5,000). The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company has classified its sublease arrangements as a finance lease because the sublease is for the remaining term of the head lease. At the commencement date, the Company recognized the assets held under the finance lease in the statement of financial position and presented them as a receivable at an amount equal to the net investment in the lease. The Company has used an incremental borrowing rate of 17.95%, which is consistent with the incremental borrowing rate used for its head leases because the rate implicit in the subleases could not be readily determined.

Under IAS 17

In the comparative period, the Company did not have any assets held under finance lease. Assets held under other leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in the statement of loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

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 these Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting 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 judgments, estimates and assumptions 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 ECLs 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.

Investments

- Investments are shares in a private company measured at fair value with unrealized gains or losses recorded in profit and loss. Fair values for investments are assessed by management on a quarterly basis to determine if there has been any impairment or appreciation in value. At the time securities are sold or otherwise disposed of, realized gains or losses are included in profit and loss.

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 inflows. 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 property and equipment ("P&E"), goodwill, and indefinite life intangible assets

- Goodwill and indefinite life intangible assets are assessed for impairment at least annually, and for P&E whenever there is an indication that the asset may be impaired. The Company determines the fair value less cost of disposal of its CGU groupings and indefinite life intangible assets using discounted cash flow models. Recoverable amounts are determined by comparing the higher of value in use and fair value less cost of disposal amounts.

  The process of determining the value in use or the fair values less cost of disposal 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. Recoverable amounts are determined by comparing the higher of value in use and fair value less cost of disposal amounts.

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.

Determination of lease liability

- The Financial Statements include estimates of the lease liability, the net investment in leases, and incremental borrowing rates. These are based on management's best estimate and in this regard may be significantly different from those determined based on future operational results.

Expected credit losses ("ECL) on financial guarantee liability

- The Financial Statements include estimates of the expected credit losses on the financial guarantee liability. These are based on management's best estimate and in this regard may be significantly different from those determined based on future operational results.

Fair market value of debenture

- The Financial Statements include estimates of the fair value of the debt component of debentures based on determination of the market interest rate. These are based on management's best estimate and in this regard may be significantly different from those determined based on future operational results.

Deferred revenue

- The Financial Statements include estimates in the determination of performance obligations on deferred revenue. These are based on management's 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 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.

Determination of control on Spirit Leaf Macleod Inc.

- The Financial Statements include judgment regarding the determination of control over Spirit Leaf MacLeod Inc., as the Company owns 50.1%, and the sole director is the CEO of the Company.

Financial instruments and risk management

Fair values

At December 31, 2019, the Company's financial instruments consist of cash, short-term deposits, accounts receivable, marketable securities, investments, loans to franchise partners, accounts payable, convertible debenture interest payable, payable to non-controlling interest, financial guarantee liability and convertible debenture. The fair values of cash, short-term deposits, accounts receivable, accounts payable and convertible debenture interest approximate their carrying values due to the relatively short-term maturity of these instruments.

Loans to franchise partners which are classified as current approximate their fair value due to their short-term nature. The non-current loan to franchise partners and the convertible debenture approximates their fair value as they have been discounted using a market rate of interest. Financial guarantee liability, classified as non-current liability, is determined based on management's assessment of the timing and the amount of expected credit losses the Company may incur.

The Company has $1,200,000 (2018 - $1,200,000) guaranteed investment certificate ("GIC") with a Canadian chartered bank with a 2% interest rate per annum with a maturity date of June 13, 2020. The GIC is cashable on demand at any point after 30 days from investment, and accrued interest will be paid up to the date of cashing in the GIC.

Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Marketable securities are classified as level 1, and the warrants included in marketable securities are classified as level 2. Investments are classified as level 2. During the years ended December 31, 2019 and 2018, there were no transfers of amounts between levels.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Interest rate risk; and
- Foreign currency risk.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash, short term deposits, loan to franchise partners and accounts receivable.

All of the Company's cash includes petty cash, store cash floats, and cash held at two financial institutions, one being a Canadian Chartered Bank and the other being a Crown corporation owned by the Province of Alberta. Management believes that the risk of loss held at the banks is minimal.
The accounts receivable balances totaling $975,949 is net of provision for expected credit losses of $61,480. The balance consist of: (i) receivables from Spirit Leaf's franchisees for franchisee fees, royalty and advertisement charges and for millwork sold, (ii) an ongoing account held with PayPal and (iii) receivable from the Bankruptcy Trustee of Watch it!, For the balances receivable from Spirit Leaf's franchisees, management estimated a provision for expected credit losses of $61,480 (2018 - $nil). A large portion of the amounts received from PayPal and Bankruptcy Trustee as at December 31, 2019 were collected subsequent to the year-end; accordingly, no provision for expected credit losses was determined for these balances. The net carrying value of accounts receivable as at the year-end represents the Company's maximum exposure to credit risk.

	2019	2018
Current	$ 342,882	$ 46,770
31 – 60 days	2,570	83,905
61 – 90 days	9,532	25,970
Greater than 90 days	620,965	422,197
Accounts receivable	$ 975,949	$ 578,842

Management believes that the risk of loss on the loan to franchise partners (Note 8) is minimal, as the Company has vetted the franchise partners prior to entering into the franchise agreement, and has entered into a General Security Agreement with all loans extended. In the event of default, the Company has various remedies available to it including the ability to acquire the franchise in case of non-repayment of the loan and operate the franchise as a corporate store.

The Company assessed the credit loss risk to be nominal. The maximum credit risk exposure associated with cash, short-term deposits, loan to franchise partners and accounts receivable is the total carrying value.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations with cash.

As the Company has historically treated a portion of the franchise fee deposits as refundable, these deposits may become financial obligations at the discretion of the Company.

The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the year. The maturity profile of the Company's financial liabilities is provided below:

	Maturity			
As at December 31, 2019	Within 1 year	1-5 years	Greater than 5 years	Total
Accounts payables and accrued liabilities	$ 884,622	$ -	$ -	$ 884,622
Convertible debentures interest payable	-	723,300	-	$ 723,300
Payable to non-controlling interest	311,671	-	-	$ 311,671
Refundable franchise fee deposits	72,500	373,750	-	$ 446,250
Lease liabilities (undiscounted cash flows)	2,190,198	8,222,869	5,474,076	$ 15,887,143
Financial guarantee liability	-	305,921	-	$ 305,921
Convertible debenture	-	10,000,000	-	$ 10,000,000
	$ 3,458,991	$ 19,625,840	$ 5,474,076	$ 28,558,907

	Maturity			
As at December 31, 2018	Within 1 year	1-5 years	Greater than 5 years	Total
Accounts payables and accrued liabilities	$ 1,294,261	$ -	$ -	$ 1,294,261
Payable to non-controlling interest	208,779	-	-	$ 208,779
Refundable franchise fee deposits	53,750	1,178,750	-	$ 1,232,500
	$ 1,556,790	$ 1,178,750	$ -	$ 2,735,540

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 marketable securities and investments measured at FVTPL. For marketable securities and investments classified as FVTPL, the impact of a 10% increase or decrease in the share price would have $63,099 change in equity. In addition, the Company has foreign currency exposure on its Tilray shares as those shares are denominated in US dollars.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Company's earnings or the value of its financial instruments. The objective of interest rate risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is not exposed to significant interest rate risk as its interest-bearing financial instruments carry a fixed rate of interest.

Foreign currency risk

The Company has foreign currency risk exposure in respect of the marketable securities as noted above. Where possible, the Company avoids transacting in foreign currencies thereby mitigating the risk of loss arising from foreign currency translation or exchange.

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 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.

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 September 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.

Market Risk from COVID-19

Though the effects of the COVID-19 outbreak remains unknown, it has introduced uncertainty and volatility in global markets and economies. The Company is monitoring developments and is prepared for any impacts related to COVID-19. The Company has a comprehensive pandemic and business continuity plan that ensures its readiness to appropriately address and mitigate any business risks and impacts to customers and employees. COVID-19 could have a material adverse effect on the Company's business and results of operations.

Additional Information

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