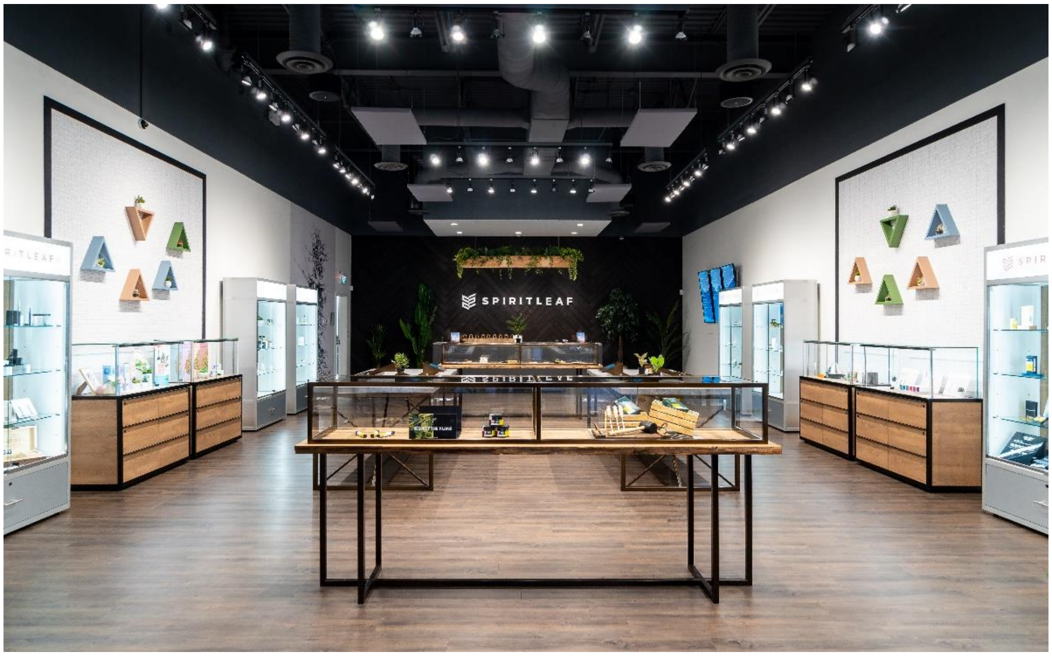

Inner Spirit Holdings Ltd.

Interim Condensed Consolidated Financial Statements
(Unaudited)
For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars unless otherwise stated)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL RESULTS

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed financial statements of the Company have been prepared in accordance with IFRS and are the responsibility of the Company's management. The interim condensed consolidated financial statements and related financial reporting matters have been reviewed and approved by the Audit Committee.

The Company's independent auditor has not performed a review of these interim condensed financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim condensed consolidated financial statements by an entity's auditor.

As at	Notes		March 31, 2020 (Unaudited)		December 31, 2019 (Audited)
ASSETS					
Current					
Cash		**$**	**2,587,053**	$	2,026,054
Short-term deposits			**1,200,000**		1,200,000
Accounts receivable			**1,702,082**		975,949
Marketable securities	4		**276,822**		630,988
Prepaid expenses and deposits			**634,616**		165,043
Inventory	6		**1,242,395**		1,415,730
Loans to franchise partners	8		**310,000**		260,064
Net investment in subleases	7		**1,223,448**		526,845
Total current assets			**9,176,416**		7,200,673
Non-current					
Investments	5		**71,434**		71,434
Loans to franchise partners	8		**237,645**		279,819
Franchise inducements	9		**1,006,857**		1,035,111
Store permits	9		**2,314,178**		2,502,866
Lease deposits	7		**228,841**		872,876
Right-of-use assets	7		**3,551,130**		5,490,969
Net investment in subleases	7		**5,096,518**		2,137,222
Property and equipment	10		**2,949,766**		3,158,738
Total assets		**$**	**24,632,785**	$	22,749,708
LIABILITIES AND EQUITY					
Current					
Accounts payable and accrued liabilities		**$**	**434,691**	$	884,622
Convertible debentures interest payable	13		**1,026,633**		723,300
Current portion of lease liabilities	7		**2,008,975**		1,752,654
Franchise fee deposits	11		**73,750**		72,500
Prepaid sales deposits from franchises			**229,196**		-
Deferred revenue	4		**341,031**		341,031
Payable to non-controlling interest	16		**311,671**		311,671
Unredeemed gift card liability	12		**3,236**		1,868
Total current liabilities			**4,429,183**		4,087,646
Non-current					
Franchise fee deposits	11		**721,250**		795,000
Lease liabilities	7		**8,254,995**		6,902,134
Financial guarantee liability	7		**349,803**		305,921
Convertible debenture	13		**8,773,953**		8,241,873
Deferred revenue	4		**611,363**		696,621
Total liabilities			**23,140,547**		21,029,195
Equity					
Share capital	14		**22,677,501**		21,007,107
Contributed surplus			**2,278,891**		1,355,536
Conversion feature on convertible debentures	13		**497,211**		497,211
Warrants	13,14d		**2,538,125**		3,415,982
Deficit			**(26,152,880)**		(24,223,704)
Equity attributable to owners of the company			**1,838,848**		2,052,132
Non-controlling interest	16		**(346,610)**		(331,619)
Total shareholders equity			**1,492,238**		1,720,513
Total liabilities and shareholders equity		**$**	**24,632,785**	$	22,749,708

Nature of operations and going concern (Note 1)
Subsequent events (Note 22)

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

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

For the Three Months Ended March 31,

For the three months ended March 31,		2020	2019
Revenue	Notes		
Retail		$ **2,641,063**	$ 8,078
Royalties		**738,125**	93,639
Advertising		**147,949**	18,728
Millwork		**327,459**	201,889
Franchise fee		**73,750**	43,750
Supply and other		**205,406**	73,699
Total revenue		**4,133,752**	439,783
Cost of sales	6	**2,166,683**	204,033
Gross profit		**1,967,069**	235,750
Operating expenses			
General and administrative		**635,724**	872,348
Salaries, wages, and benefits		**1,104,594**	436,214
Occupancy costs		**165,595**	109,459
Depreciation and amortization	9,10	**367,331**	466,423
Right-of-use assets depreciation	7	**172,013**	-
Sales and marketing		**195,403**	84,247
Total operating expenses		**2,640,660**	1,968,691
Operating loss before other expenses		**(673,591)**	(1,732,941)
Share-based compensation	14c	**45,498**	-
Unrealized loss (gain) on marketable securities	4	**354,166**	(72,539)
Gain on sublease arrangement	7	**(210,005)**	-
Financial guarantee liability expense	7	**43,882**	-
Finance income	7	**(259,459)**	-
Interest expense	13	**303,333**	142,921
Convertible debenture accretion	13	**532,080**	-
Interest expense (accretion) - leases	7	**461,081**	-
		1,270,576	70,382
Net loss for the period from continuing operations		$ **(1,944,167)**	$ (1,803,323)
Net loss for the period from discontinued operations		**-**	(201,572)
Net loss and comprehensive loss for period		$ **(1,944,167)**	$ (2,004,895)
Net loss and comprehensive loss attributed to:			
Owners of the Company		**(1,929,176)**	(1,945,970)
Non-controlling interest	16	**(14,991)**	(58,925)
Net loss per share - Basic and diluted	15	**($0.01)**	($0.01)
Net loss per share - continuing operations			
- Basic and diluted	15	**($0.01)**	($0.01)
Net loss per share - discontinued operations			
- Basic and diluted	15	**$0.00**	($0.00)

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

Interim Condensed Consolidated Statements of Changes in Equity (Unaudited)

For the Three Months Ended March 31, 2020 and 2019

	Notes	Number of common shares	Share capital	Contributed surplus	Equity portion of convertible debentures	Warrants	Deficit	Non-controlling interest ("NCI")	Total
Balance, December 31, 2018		186,179,524	$16,971,660	$ 725,137	$ -	$ 1,948,801	$ (12,984,037)	$ -	$ 6,661,561
Franchise acquisitions	14	7,075,472	1,500,000	-	-	-	-	-	1,500,000
Exercise of options	14c	120,000	12,000	-	-	-	-	-	12,000
IFRS 16 adjustment	14	-	-	-	-	-	(271,033)	-	(271,033)
Net loss and comprehensive loss		-	-	-	-	-	(2,004,895)	58,925	(1,945,970)
Balance, March 31, 2019		193,374,996	$18,483,660	$ 725,137	$ -	$ 1,948,801	$ (15,259,965)	$ 58,925	$ 5,956,558
Balance, December 31, 2019		**206,236,295**	**$21,007,107**	**$ 1,355,536**	**$ 497,211**	**$ 3,415,982**	**$ (24,223,704)**	**$ (331,619)**	**$ 1,720,513**
Private placements	**14**	**16,854,542**	**1,685,454**	**-**	**-**	**-**	**-**	**-**	**1,685,454**
Share-based compensation	**14c**	**-**	**-**	**45,498**	**-**	**-**	**-**	**-**	**45,498**
Expiration of warrants	**14d**	**-**	**-**	**877,857**	**-**	**(877,857)**	**-**	**-**	**-**
Share issuance costs	**14**	**- -**	**(15,060)**	**-**	**-**	**-**	**-**	**-**	**(15,060)**
Net loss and comprehensive loss		-	-	-	-	-	**(1,929,176)**	**(14,991)**	**(1,944,167)**
Balance, March 31, 2020		**223,090,837**	**$22,677,501**	**$ 2,278,891**	**$ 497,211**	**$ 2,538,125**	**$ (26,152,880)**	**$ (346,610)**	**$ 1,492,238**

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

For the three months ended March 31,	Notes	2020	2019
Cash provided by (used in) the following activities:			
Operating			
Net loss for the period		$ **(1,944,167)**	$ (2,004,895)
Adjustments for:			
Amortization and depreciation	9,10	**367,331**	79,447
Right-of-use assets depreciation	7	**172,013**	488,329
Share-based compensation	14c	**45,498**	-
Unrealized loss (gain) on marketable securities	4	**354,166**	(72,539)
Gain on subleasing arrangements	7	**(210,005)**	-
Financial guarantee expense	7	**43,882**	-
Finance income	7	**(259,459)**	-
Convertible debenture accretion	13	**532,080**	-
Interest expense (accretion) - leases	7	**461,081**	-
Convertible debenture interest expense	13	**303,333**	-
Non-cash deferred revenue	4	**(85,258)**	82,669
Changes in non-cash w orking capital balances	21	**(984,167)**	1,233,636
Cash flow used in operating activities		**(1,203,672)**	(193,353)
Financing			
Lease payments, net of amounts paid directly by sublease	7	**(270,508)**	(306,654)
Issuance of share capital, net of issuance costs	14	**1,670,394**	1,512,000
Loan to franchise partners	8	**(50,000)**	-
Receipt of repayment of loan to franchise partners	8	**60,000**	-
Accretion on franchise loans	8	**(17,762)**	-
Short term note payable		**-**	1,750,000
Payable to related party	17	**-**	(271)
Cash flow provided by financing activities		**1,392,124**	2,955,075
Investing			
Net investment in leases	7	**285,757**	-
Franchise inducements	9	**28,254**	-
Acquisition of property and equipment	10	**(256,023)**	(442,364)
Disposition of property and equipment	10	**314,559**	-
Acquisition of store permits		**-**	(2,502,026)
Acquisition of franchise stores		**-**	(1,143,079)
Cash flow provided by (used in) investing activities		**372,547**	(4,087,469)
Change in cash		**560,999**	(1,325,747)
Cash, beginning of period		**2,026,054**	3,375,588
Cash, end of period		$ **2,587,053**	$ 2,049,841

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Inner Spirit Holdings Ltd. ("Inner Spirit" or the "Company") was incorporated under the Business Corporations Act (Alberta) on March 16, 2017. The Company was amalgamated under the Business Corporations Act (Alberta) on August 31, 2017 with 2043246 Alberta Ltd. to continue as Inner Spirit Holdings Ltd.

The Company has four subsidiaries, namely Spirit Leaf Inc., Spirit Leaf Corporate Inc., Spirit Leaf Macleod Inc., and Spirit Leaf Ontario Inc. (collectively, "Spirit Leaf"). Spirit Leaf Inc.'s primary business is the current operation, planned opening and ongoing support of franchise retail cannabis stores in Canadian jurisdictions where the private sale of recreational cannabis is permitted. Spirit Leaf Corporate Inc.'s primary business is the current operation and planned opening of wholly-owned corporate retail cannabis stores. Spirit Leaf Macleod Inc.'s primary business is the current operation of a corporate retail cannabis store.

In 2019, the Company had another subsidiary Watch It! Consolidated Ltd. ("Watch It!"). Watch It!'s primary business was the ongoing support of licensed retail watch stores and the sale of watches, sunglasses and related accessories through corporate retail outlets across Canada and through its websites. 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 sold the remaining assets and trademark to a former franchise owner who continues to independently operate two stores and the related e-commerce business. All historical operations have been accounted in the financials for as Discontinued Operations.

The Company's registered office is located at Suite 1600 Dome Tower, 333 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

These interim condensed consolidated financial statements ("Financial Statements") have been prepared on a going concern basis, which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

During the three months ended March 31, 2020, the Company incurred a net loss and comprehensive loss of $1,944,167 (March 31, 2019 - $2,004,895) and utilized cash of $1,203,672 (March 31, 2019 - $193,353) in operations and, as of that date, had a deficit of $26,152,880 (December 31, 2019 - $24,223,704).

These events or conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Management's view is that the success of the Company is dependent upon achieving profitable operations.

The Financial Statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments could then be necessary to the carrying value of assets and liabilities, the reported expenses and their classifications. Such adjustments if required, could be material.

2. BASIS OF PRESENTATION

Statement of compliance

These Financial Statements have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting". These Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2019 available on SEDAR at www.sedar.com.

These Financial Statements were approved and authorized by the Board of Directors on June 16, 2020.

Basis of measurement

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

2. BASIS OF PRESENTATION (CONTINUED)

Basis of consolidation

The Financial Statements include the ownership percentages of Inner Spirit's subsidiaries, all of which are domiciled in Canada:

Entity Name	Ownership Percentage
Spirit Leaf Inc.	100%
Spirit Leaf Corporate Inc.	100%
Spirit Leaf Macleod Inc.	50.1%
Spirit Leaf Ontario Inc.	100%

The Company has consolidated the assets, liabilities, revenues and expenses of the subsidiaries after the elimination of inter-company transactions and balances.

Non-controlling interest

Non-controlling interest represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of shareholders' equity. Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interest consists of the non-controlling interest at the date of the original acquisition plus the non-controlling interest share of changes in equity since the date of acquisition. The Company owns 50.1% of the common shares outstanding of its subsidiary, Spirit Leaf Macleod Inc. These Financial Statements include 100% of the assets and liabilities of Spirit Leaf Macleod Inc., and include a non-controlling interest representing 49.9% of Spirit Leaf Macleod Inc.'s assets and liabilities not owned by the Company.

Functional currency

These Financial Statements have been prepared in Canadian dollars, which is the Company's and its subsidiaries' functional currency.

Significant accounting judgments and estimates

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 significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the audited consolidated financial statements for the year ended December 31, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

Please refer to the December 31, 2019 audited consolidated financial statements and accompanying notes for a description of the significant accounting policies used by the Company. The policies set out in the Company's December 31, 2019 audited consolidated financial statements were consistently applied to all periods presented. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019.

4. MARKETABLE SECURITIES

Fair market value, at acquisition	$	1,577,812
Unrealized loss		(946,824)
Fair market value, December 31, 2019	$	630,988
Unrealized loss		(354,166)
Fair market value, March 31, 2020	$	276,822

i) On June 13, 2019, the Company closed its investment transaction with Tilray Inc. (“Tilray”), pursuant to which both Tilray and the Company acquired equity interests in each other. Tilray made an investment in the Company valued at $1,577,812 comprised of 28,361 common shares in the capital of Tilray (“Tilray Shares”) issued at a closing price of US$43.34 (CDN$52.89). In consideration for Tilray’s investment in Inner Spirit, Inner Spirit issued Tilray 7,443,799 common shares of the Company valued at $1,525,979 at a market price of $0.22 per common share (Note 14 b(v)).

The difference between the fair values of the two shares exchanged was recorded as deferred revenue on initial recognition and is being recognized in the consolidated statement of loss and comprehensive loss on a straight-line basis over the term of the agreement. The Company recorded $10,354 (December 31, 2019 - $10,677) as a current liability in the consolidated statement of financial position and $2,589 (December 31, 2019 - $16,115) has been recognized as revenue in the consolidated statement of loss and comprehensive loss. The remaining non-current liability is $22,775 (December 31, 2019 - $25,364).

In addition, during 2019, the Company received a loan of $1,500,000 from Tilray, which was fully repaid during the year. The Company incurred interest expense of $42,111 on this loan.

ii) On February 6, 2018, the Company issued 15,000,000 common shares at $0.10 per share to Auxly Cannabis Group Inc., ("Auxly"), in consideration for Auxly: (i) paying to the Company the sum of $350,000; (ii) issuing to the Company 674,418 common shares in the capital of Auxly ("Auxly Shares"); and (iii) issuing to the Company 1,250,000 warrants ("Auxly Warrants") to purchase Auxly Shares at an exercise price of $2.53 per share for a period of two (2) years, vesting on a performance-based schedule triggered by the opening of a pre-determined number of future Spirit Leaf locations. The Company has allocated $1,305,055 of the investment in the Company as deferred revenue, which represents the difference between the fair value of consideration received and the fair value of the Company's shares transferred to Auxly.

The Company entered into an agreement with Auxly on January 31, 2019, which gives Auxly the commercial right to supply the Company up to 50% of all of its cannabis and cannabis inputs and provides for profit sharing between the parties up to January 8, 2023. Based on their agreement, the Company has determined to recognize the deferred revenue on a straight line basis over the term of the agreement and has therefore recorded $330,677 (December 31, 2019 - $330,677) as a current liability in the consolidated statement of financial position and $82,669 (December 31, 2019 - $303,121) has been recognized as revenue in the consolidated statement of loss and comprehensive loss. The remaining non-current liability is $588,588 (December 31, 2019 - $671,257).

During 2019, the Company sold the remaining balance of 71,235 Auxly Shares for proceeds, net of selling costs of $525,759, to hold nil Auxly shares as of December 31, 2019.

As at March 31, 2020, the Auxly Warrants expired unexercised, out of the money.

5. INVESTMENTS

During the year ended December 31, 2018, the Company made a prepaid subscription of US$110,000 ($149,710 Cdn.) in an investment in Hightimes Holding Corp. ("Hightimes"). During the year ended December 31, 2019, the shares in Hightimes were received by the Company. As at March 31, 2020, the fair market value of the investment was $71,434 (December 31, 2019 - $71,434).

		31-Mar-20		31-Dec-19
Fair market value, beginning	$	71,434	$	149,710
Unrealized loss		-		(78,276)
Fair market value, ending	$	71,434	$	71,434

6. INVENTORY

		31-Mar-20		31-Dec-19
Spirit Leaf merchandise	$	907,313	$	261,685
Millwork		335,082		1,154,045
	$	1,242,395	$	1,415,730

Included in cost of sales for the period ended are inventory write-downs for damaged inventory and inventory shrinkage in the amount of $nil (March 31, 2019 - $nil).

Inventory costs included in cost of sales		31-Mar-20		31-Mar-19
Expensed inventories Spirit Leaf merchandise	$	1,816,941	$	20,105
Expensed inventories millwork		326,854		183,928
Expensed inventories other		22,888		-
	$	2,166,683	$	204,033

7. LEASES

Right-of-use assets:

Below is a summary of the activities related to the right-of-use assets for the period ended March 31, 2020.

Cost		31-Mar-20		31-Dec-19
Cost, beginning balance	$	6,662,847	$	4,790,127
Additions during the period		1,744,137		4,664,108
Terminations during the period		-		(457,917)
Derecognition upon sub-lease, during the period		(3,519,209)		(2,333,471)
Cost, ending balance	$	4,887,775	$	6,662,847
Accumulated depreciation				
Beginning balance	$	(1,171,878)	$	-
Depreciation for the period - Continuing operations		(172,013)		(809,184)
Depreciation for the period - Discontinued operations		-		(362,694)
Derecognition upon sub-lease, during the period		7,246		-
Ending balance	$	(1,336,645)	$	(1,171,878)
Net book value	$	3,551,130	$	5,490,969

7. LEASES (CONTINUED)

Below is a summary of the activity related to the net investment in subleases for the period ended March 31, 2020.

	31-Mar-20	31-Dec-19
Net investment in subleases, beginning	$ 2,664,068	$ 207,680
Additions during the period	3,721,967	2,337,315
Finance income	259,459	234,930
Rents recovered (payments made directly to landlords)	(325,528)	(115,857)
Net investment in subleases, ending	$ 6,319,966	$ 2,664,068
Of which are:		
Current portion	$ 1,223,448	$ 526,845
Non-current portion	$ 5,096,518	$ 2,137,222

The Company recorded a gain of $210,005 (March 31, 2019 - $nil) in its sublease arrangements.

Lease liability

Below is a summary of the activity related to the lease liabilities for the period ended March 31, 2020.

	31-Mar-20	31-Dec-19
Beginning balance	$ 8,654,788	$ 4,997,807
Additions during the period	1,744,137	4,664,108
Terminations during the period	-	(493,566)
Accretion of lease liabilities - Continuing operations	461,081	1,190,988
Accretion of lease liabilities - Discontinued operations	-	112,025
Lease payments	(596,036)	(1,816,574)
Lease liabilities, ending balance	$ 10,263,970	$ 8,654,788
Of which are:		
Current lease liabilities	$ 2,008,975	$ 1,752,654
Non-current lease liabilities	$ 8,254,995	$ 6,902,134

Subsequent to the period ended March 31, 2020, the Company terminated three leases.

8. LOANS TO FRANCHISE PARTNERS

During the year ended December 31, 2019, the Company provided loans to a number of its franchise partners totaling $695,000. Of the total loans, $195,000 of the loans had an annual interest rate of 12%, with final payments due within 1 year of loan. These loans also had a 2% loan fee, which was deducted from initial loan advance. The balance of the loans amounting to $500,000 was issued during the year concurrent with the franchise inducement (Note 9) that was an interest free promissory note with repayment terms of $8,333 per month, repayable over five years.

The interest free promissory note had a fair value adjustment since it was interest free, and this fair market adjustment was calculated based on discounted cash flow using the market rate of interest of 12% over the term of the promissory note.

During the period ended, March 31, 2020, the Company entered into an asset purchase agreement to acquire all of the assets with the Kingston, Ontario franchisee. This transaction is pending closure.

8. LOANS TO FRANCHISE PARTNERS (CONTINUED)

	31-Mar-20	31-Dec-19
Balance, beginning of period	$ 539,883	$ -
Loans issued in period	50,000	695,000
Repayments during the period	(60,000)	(58,333)
Fair value adjustment	-	(136,265)
Accretion for the period	17,762	39,481
Balance, end of period	$ 547,645	$ 539,883
Of which are:		
Current portion	$ 310,000	$ 260,064
Non-current portion	$ 237,645	$ 279,819

9. INTANGIBLE ASSETS

Cost	Store permits	Franchise inducements	Total
December 31, 2018	$ 713,993	$ -	$ 713,993
Additions	2,057,042	1,133,867	3,190,909
December 31, 2020 and March 31, 2020	$ 2,771,035	$ 1,133,867	$ 3,904,902
Accumulated amortization			
December 31, 2018	$ -	$ -	$ -
Amortization for the year	(268,169)	(98,756)	(366,925)
December 31, 2019	$ (268,169)	$ (98,756)	$ (366,925)
Amortization for the period	(188,688)	(28,254)	(216,942)
March 31, 2020	$ (456,857)	$ (127,010)	$ (583,867)
Net book value			
December 31, 2019	$ 2,502,866	$ 1,035,111	$ 3,537,977
March 31, 2020	$ 2,314,178	$ 1,006,857	$ 3,321,035

During the year ended December 31, 2019, the Company incurred costs of $1,133,867 as an inducement to an Ontario lottery winner to enter into a business partnership to operate a Spiritleaf store in Kingston, Ontario. The inducement was to bring the partner into the Spiritleaf system under a retail operating agreement and to earn royalties. The inducement consisted of issuing 5,000,000 shares in the Company at a price of $0.17 per share (Note 14b(iv)) as well as incurring additional cash costs. The franchise inducement is accounted for as an intangible asset and is being amortized as per the Company’s accounting policy.

10. PROPERTY AND EQUIPMENT

Cost	Computer equipment	Furniture and fixtures	Vehicle	Leasehold improvements	Total
December 31, 2018	$ 67,764	$ 764,312	$ 27,557	$ 1,736,584	$ 2,596,217
Additions	57,905	621,418	27,006	1,561,770	2,268,099
December 31, 2019	$ 125,669	$ 1,385,730	$ 54,563	$ 3,298,354	$ 4,864,316
Adjustment	(9,038)	(274,970)	-	(814,673)	(1,098,681)
Additions	3,645	65,714	-	186,664	256,023
Dispositions	-	(58,514)	-	(256,045)	(314,559)
March 31, 2020	$ 120,276	$ 1,117,960	$ 54,563	$ 2,414,300	$ 3,707,099
Accumulated depreciation					
December 31, 2018	(28,555)	(324,604)	(4,134)	(889,708)	(1,247,001)
Depreciation for the year	(37,163)	(144,006)	(11,078)	(266,330)	(458,577)
December 31, 2019	$ (65,718)	$ (468,610)	$ (15,212)	$ (1,156,038)	$ (1,705,578)
Adjustment	9,038	274,970	-	814,673	1,098,681
Depreciation for the period	(8,253)	(44,573)	(2,951)	(94,659)	(150,436)
March 31, 2020	$ (64,933)	$ (238,213)	$ (18,163)	$ (436,024)	$ (757,333)
Net book value					
December 31, 2019	$ 59,951	$ 917,120	$ 39,351	$ 2,142,316	$ 3,158,738
March 31, 2020	$ 55,343	$ 879,747	$ 36,400	$ 1,978,276	$ 2,949,766

11. FRANCHISE FEE DEPOSITS

The Company has a franchise model associated with its Spirit Leaf operations. The Company charges an upfront franchise fee with refundable and non-refundable portions. Refundable portions are deposited into a segregated savings account apart from the Company's operating accounts. As at March 31, 2020, franchise fee deposits are accounted for as a non-current liability, except for those initial fees expected to be earned or refunded with the next 12 months of $73,750 (December 31, 2019- $72,500).

	Non-Refundable	Refundable	Total
Balance as of December 31, 2018	$ 610,100	$ 1,232,500	$ 1,842,600
Terminated franchises	(35,000)	(500,000)	(535,000)
Redrafted Ontario franchises	(155,000)	180,000	25,000
New franchises sold	-	100,000	100,000
Store openings	293,750	(293,750)	-
Franchise fees earned	(292,600)	(272,500)	(565,100)
Balance as of December 31, 2019	$ 421,250	$ 446,250	$ 867,500
Current portion, December 31, 2019			$ 72,500
Long term portion, December 31, 2019			$ 795,000
Terminated franchises	$ (15,000)	$ (50,250)	$ (65,250)
Redrafted Ontario franchises	-	91,500	91,500
New franchises sold	33,750	15,000	48,750
Store openings	(73,750)	(73,750)	(147,500)
Balance as of March 31, 2020	$ 366,250	$ 428,750	$ 795,000
Current portion, March 31, 2020			$ 73,750
Long term portion, March 31, 2020			$ 721,250

12. UNREDEEMED GIFT CARD LIABILITY

The Company has outstanding $3,236 (December 31, 2019 - $1,868) of unredeemed gift card liabilities that have been purchased by customers for use at its Spirit Leaf stores.

13. CONVERTIBLE DEBENTURES

The fair value and related movement during the year for each of the components of the convertible debentures, conversion feature on convertible debentures and warrants is as follows:

	Convertible Debentures (financial liability)	Conversion feature on Convertible Debentures	Warrants	Total
Upon initial recognition	$ 8,014,081	$ 558,393	$ 1,427,526	$ 10,000,000
Less: Issuance costs	(878,100)	(61,182)	(156,414)	(1,095,696)
Accretion during the year	1,105,892	-	-	1,105,892
Balance as at December 31, 2019	$ 8,241,873	$ 497,211	$ 1,271,112	$ 10,010,196
Accretion during the period	532,080	-	-	532,080
Balance as at March 31, 2020	$ 8,773,953	$ 497,211	$ 1,271,112	$ 10,542,276

For the period ended March 31, 2020, the accrued interest on the convertible debentures totaled $1,026,633 (December 31, 2019 – $723,300), which is recorded as interest expense totaling $303,333 (March 31, 2019 – $nil) in the consolidated statement of loss and comprehensive loss.

14. SHARE CAPITAL

(a) Authorized:

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

(b) Issued common shares:

	Note	Number	Amount
Balance, December 31, 2018		186,179,524	$ 16,971,660
Franchisee acquisitions	14b(i)	7,075,472	1,556,604
Exercise of options	14b(ii)	287,500	52,864
Shares issued for services	14b(iii)	250,000	50,000
Franchisee inducement	14b(iv)	5,000,000	850,000
Tilray Inc. investment	14b(v)	7,443,799	1,525,979
Balance, December 31, 2019		206,236,295	$ 21,007,107
Private placements	14b(vi)	16,854,542	1,685,454
Share issuance costs		-	(15,060)
Balance, March 31, 2020		223,090,837	$ 22,677,501

14. SHARE CAPITAL (CONTINUED)

(i) During the year ended December 31, 2019, the Company purchased the assets of three proposed retail cannabis stores for total consideration of $2,000,000, of which $1,500,000 was paid through the issuance of 7,075,472 common shares of the Company at a fair market price equal to $0.22 per share ($1,556,604 at fair value), $250,000 was paid in cash, and $250,000 was paid through a promissory note due one year after the closing of the acquisition.

(ii) During the year ended December 31, 2019, a total of 287,500 shares were issued at a price of $0.10 per share pursuant to options exercised. The fair value of these options of $24,114 was transferred from contributed surplus to share capital.

(iii) During the year ended December 31, 2019, a total of 250,000 shares were issued at a price of $0.20 per share for payment of services.

(iv) During the year ended December 31, 2019, a total of 5,000,000 shares were issued at a price of $0.17 per share as an inducement for a franchisee (Note 9).

(v) During the year ended December 31, 2019, a total of 7,443,799 shares were issued to Tilray pursuant to an investment agreement between the Company and Tilray (Note 4(i)).

(vi) During the period ended March 31, 2020, a total of 16,854,542 shares were issued for gross proceeds of $1,668,454 pursuant to private placements.

(vii) Subsequent to the period ended March 31, 2020, a total of 6,000,000 shares were issued for gross proceeds of $600,000 pursuant to a private placement.

(c) Options

The board of directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares provided that the number of common shares reserved for issuance under all outstanding options will not exceed 10% of the issued and outstanding common shares.

As at March 31, 2020, the following options are outstanding.

	Note	Number of options	Weighted average exercise price
Balance, December 31, 2018		14,585,000	$0.14
Issued during year		2,065,000	$0.14
Exercised during year	14b(ii)	(287,500)	$0.10
Forfeited during year		(660,000)	$0.10
Balance, December 31, 2019		15,702,500	$0.14
Exercisable, December 31, 2019		7,171,250	$0.14
Issued during the period		500,000	$0.10
Forfeited during period		(725,000)	$0.13
Balance, March 31, 2020		15,477,500	$0.14
Exercisable, March 31, 2020		8,981,250	$0.13

During the period ended March 31, 2020, the Company granted 500,000 options with an exercise price of $0.10. During 2019, the Company granted 400,000 options with an exercise price of $0.20 and 1,665,000 options with an exercise price of $0.11 per share. One fourth of the stock options vest immediately and the remaining stock options granted vest one fourth on each of the first, second, and third anniversary of the grant date.

14. SHARE CAPITAL (CONTINUED)

The fair value of the options granted was estimated using the Black Scholes option pricing model, with the following weighted average assumptions:

	31-Mar-20	31-Dec-19
Risk free interest rate (%)	1.25%	1.34% - 1.5%
Expected life (years)	5	5
Volatility rate (%)	127%	98%-115%
Dividend yield (%)	0%	0%
Forfeiture rate (%)	12.00%	12.00%

In estimating the expected volatility rate at the time of a particular share option grant, the Company relies on observations of historical volatility trends.

The following table summarizes information about the share options outstanding and exercisable as at March 31, 2020.

Options outstanding	Weighted average exercise price	remaining term (years)	Options exercisable
8,222,500	$0.10	3.04	5,835,000
1,620,000	$0.11	4.65	416,250
5,635,000	$0.20	3.73	2,730,000
15,477,500	$0.14	3.46	8,981,250

The share-based compensation expense recognized during the period ended March 31, 2020, for these options was $45,498 (March 31, 2019 - $nil).

(d) Warrants

The following table summarizes the balance of warrants outstanding and exercisable as at March 31, 2020 and December 31, 2019 as well as it provides the summary of transactions the period:

	Notes	Number of warrants	Amount	Weighted average exercise price	Weighted average expiry date (years)
Balance, December 31, 2018		32,901,677	$ 1,948,801	$0.29	0.63
Issued for services		2,792,800	196,069	$0.22	1.16
Convertible debenture warrants	13	20,000,000	1,271,112	$0.25	1.16
Balance, December 31, 2019		55,694,477	$ 3,415,982	$0.27	1.29
Exercisable, December 31, 2019		54,894,477		$0.28	0.82
Expired or cancelled during the period		(15,691,177)	(877,857)	$0.30	
Balance, March 31, 2020		40,003,300	$ 2,538,125	$0.27	0.41
Exercisable, March 31, 2020		39,203,300		$0.27	0.37

During the year ended December 31, 2019, the Company issued 2,792,800 warrants for consulting services as follows:

(i) warrants totalling 2,292,800 with fair value of $163,515 were provided to the agents involved in the convertible debenture financing as part of their fees (Note 13). The fair value of these warrants was recorded as convertible debenture issuance costs bifurcated between the components of convertible debenture and the corresponding credit amount recorded in warrants within equity.

14. SHARE CAPITAL (CONTINUED)

(ii) warrants totalling 500,000 were provided to a real estate firm who has been assisting the Company in finding and negotiating leases for retail stores. These warrants were fair valued at $32,554 using Black Scholes option pricing model (see assumptions used in the table below) and was recorded within share-based compensation expense during the year and the corresponding credit amount recorded in warrants within equity.

During the year ended December 31, 2019, the Company issued 20,000,000 warrants pursuant to the convertible debenture issuance (Note 13).

The share-based compensation expense recognized during the period ended March 31, 2020 for the warrants was $nil (March 31, 2019 - $nil).

The fair value of the warrants granted was estimated using the Black Scholes option pricing model, with the following assumptions:

	31-Mar-20	31-Dec-19
Risk free interest rate (%)	1.56% - 1.58%	1.56% - 1.58%
Expected life (years)	1.5 - 2	1.5 - 2
Volatility rate (%)	97% - 115%	97% - 115%
Dividend yield (%)	0.00%	0.00%
Forfeiture rate (%)	0.00%	0.00%

During the period ended March 31, 2020, a total of 15,441,177 warrants with exercise prices of $0.30 per share, were cancelled by agreement with the warrant holders.

Subsequent to the period ended March 31, 2020, a total of 700,000 warrants with exercise prices of $0.10 - $0.15 per share, expired unexercised.

(e) Securities held in escrow

In conjunction with the Company's IPO, an aggregate of 38,143,853 common shares, 3,970,000 options and 661,775 warrants were deposited in escrow pursuant to applicable securities law. In June 2019, an additional 7,058,824 common shares and 3,529,412 warrants were deposited in escrow retroactive to July 2018.

As at March 31, 2020, a total of 20,341,205 common shares, 1,584,000 options, and 1,886,030 warrants remain in escrow.

15. NET LOSS PER COMMON SHARES

The calculation of basic and diluted loss per share for the period ended March 31, 2020 was based on the net loss and comprehensive loss attributable to owners of the Company of $1,929,176 (March 31, 2019 – $2,017,702) divided by the weighted average number of common shares outstanding at the period ended of 217,792,655 (March 31, 2019 – 137,469,525).

The calculation of basic and diluted loss per share from continuing operations and discontinued operations for the period ended March 31, 2020 and 2019 was based on net loss and comprehensive loss from continuing operations and discontinued operations attributable to owners of the Company divided by the weighted average number of common shares outstanding at the year end as noted above.

The shares held in escrow have been included in the calculation as they are released based over a set period of time. The stock options and warrants outstanding were excluded from the calculation of diluted loss per share as they were anti-dilutive.

16. NON-CONTROLLING INTEREST

As a March 31, 2020 and 2019, Inner Spirit owned 50.1% of Spirit Leaf Macleod Inc., and 1010805 Alberta Ltd. (“Numberco”) owned a 49.9% non-controlling interest (“NCI”) and holds 49.9% of the voting rights.

As at March 31, 2020, payable to non-controlling interest was a non-interest-bearing, unsecured, due on demand loan of $311,671 (December 31, 2019 - $311,671) for costs incurred for Spirit Leaf Macleod Inc.

		Numberco NCI Ownership		
Spirit Leaf Macleod Inc.		49.9%		
		31-Mar-20		31-Dec-19
Net loss and comprehensive loss	$	(30,042)	$	(572,146)
Total loss and comprehensive loss attributable to NCI		(14,991)		(285,501)
Accumulated deficit allocated to NCI		(331,619)		(46,118)
Total non-controlling interest	$	(346,610)	$	(331,619)
Current assets	$	127,101	$	121,255
Non-current assets		340,821		530,755
Current liabilities		(326,964)		(320,289)
Non-current liabilities		-		(204,764)
Net assets	$	140,958	$	126,957
Cash flows used in operating activities	$	(18,360)	$	(3,574)
Cash flows provided by financing activities		24,367		79,161
Cash flows used in investing activities		(9,017)		(50,221)
Net increase in cash	$	(3,010)	$	25,365

17. RELATED PARTY TRANSACTIONS

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.

		31-Mar-20		31-Mar-19
Short-term benefits	$	73,343	$	66,000
Long-term benefits (*)		15,293		-
	$	88,636	$	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.

Other related party transactions

During the period ended March 31, 2020, the Company paid $12,982 (March 31, 2019 - $8,710) in base rent for office space to a company related to an executive officer and director. The yearly rent increased as the size of office space increased and was based on a fair value assessment completed by an independent appraiser.

As at March 31, 2020, there was $nil (December 31, 2019- $nil) of outstanding payables to related parties, that is included in accounts payable and accrued liabilities.

18. COMMITMENTS

The Company entered into five retail store leases during the period ended March 31, 2020 but the commencement date of these did not begin until after the quarter end, and as such the five retail stores were not available for use during the period; therefore, they do not form a part of the leases disclosed in Note 7.

The lease obligations on these five leases (undiscounted) is as outlined below.

		31-Mar-20
2020	$	87,381
2021	$	392,091
2022	$	402,007
2023	$	407,381
Thereafter	$	2,986,855

19. CAPITAL RISK MANAGEMENT

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach in the period. The Company considers its shareholders' equity as capital which, as at March 31, 2020, is $1,492,238 (December 31, 2019- $1,720,513).

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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 Company has $1,200,000 (December 31, 2019 - $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.

The accounts receivable balances totaling $1,702,082 (December 31, 2019 - $975,949) is net of provision for expected credit losses of $nil (December 31, 2019 - $61,480). The balance consists of receivables from Spirit Leaf's franchisees for franchisee fees, royalty and advertisement charges and for millwork sold. The net carrying value of accounts receivable as at the year-end represents the Company's maximum exposure to credit risk.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	31-Mar-20	31-Dec-19
Current	$ 1,185,641	$ 342,882
31 – 60 days	37,728	2,570
61 – 90 days	15,150	9,532
Greater than 90 days	463,563	620,965
Accounts receivable	$ 1,702,082	$ 975,949

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 period.

The maturity profile of the Company’s financial liabilities is provided below:

	Maturity			
As at March 31, 2020	Within 1 year	1-5 years	Greater than 5 years	Total
Accounts payables and accrued liabilities	$ 434,691	$ -	$ -	$ 434,691
Convertible debentures interest payable	-	1,026,633	-	1,026,633
Payable to non-controlling interest	311,671	-	-	311,671
Refundable franchise fee deposits	73,750	428,750	-	502,500
Prepaid sales deposits from franchises	229,196	-	-	229,196
Lease liabilities (undiscounted cash flows)	2,575,293	11,196,244	5,127,374	18,898,911
Financial guarantee liability	-	349,803	-	349,803
Convertible debenture	-	10,000,000	-	10,000,000
	$ 3,624,601	$ 23,001,430	$ 5,127,374	$ 31,753,405
As at December 31, 2019				
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

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 air value through profit or loss ("FVTPL"). For marketable securities and investments classified as FVTPL, the impact of a 10% increase or decrease in the share price would have $34,826 change in equity.

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. Where possible, the Company avoids transacting in foreign currencies thereby mitigating the risk of loss arising from foreign currency translation or exchange.

21. CHANGES IN NON-CASH WORKING CAPITAL

For the three months ended March 31,	2020	2019
Accounts receivables	$ (726,133)	$ (405,971)
Prepaid expenses and deposits	(469,573)	(24,964)
Lease deposits	-	136,839
Inventory	173,335	106,021
Accounts payables and accrued liabilities	(449,931)	(203,678)
Current portion of lease liabilities	256,321	1,680,227
Franchise fee deposits	1,250	(38,750)
Prepaid sales deposits from franchises	229,196	-
Unredeemed gift card liability	1,368	(16,088)
Increase (decrease) in non-cash working capital balances	$ (984,167)	$ 1,233,636

22. SUBSEQUENT EVENTS

Since March 31, 2020, COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures include the implementation of travel bans, self-imposed quarantine periods, social distancing and temporary closures of non-essential businesses. The Company has reacted by i) establishing protocols focused on keeping its employees safe and healthy while ensuring the continuity and sustainability of its business; ii) implementing enhanced in-store procedures including increased and frequent cleaning, installation of safety shields, reduction of paper materials and reducing acceptance of cash or product returns; iii) monitoring store performance, shopping patterns and employee availability on an ongoing basis to optimize operating hours and selectively close stores where required by law or otherwise appropriate to enhance the productivity of the network under the circumstances; iv) adapting its business model by moving towards online sales platforms that enables customers to order products online for fast pickup and payment in store; and v) offering curbside pickup and delivery options in its Ontario location . At the initial outset of the pandemic in mid-March, the Company experienced higher than normal sales, but future sales may still be volatile. Although the Company's services have been deemed an essential in the provinces it operates in, if the impact of COVID-19 continues for an extended period, it may materially adversely affect the business operations and future financial results.