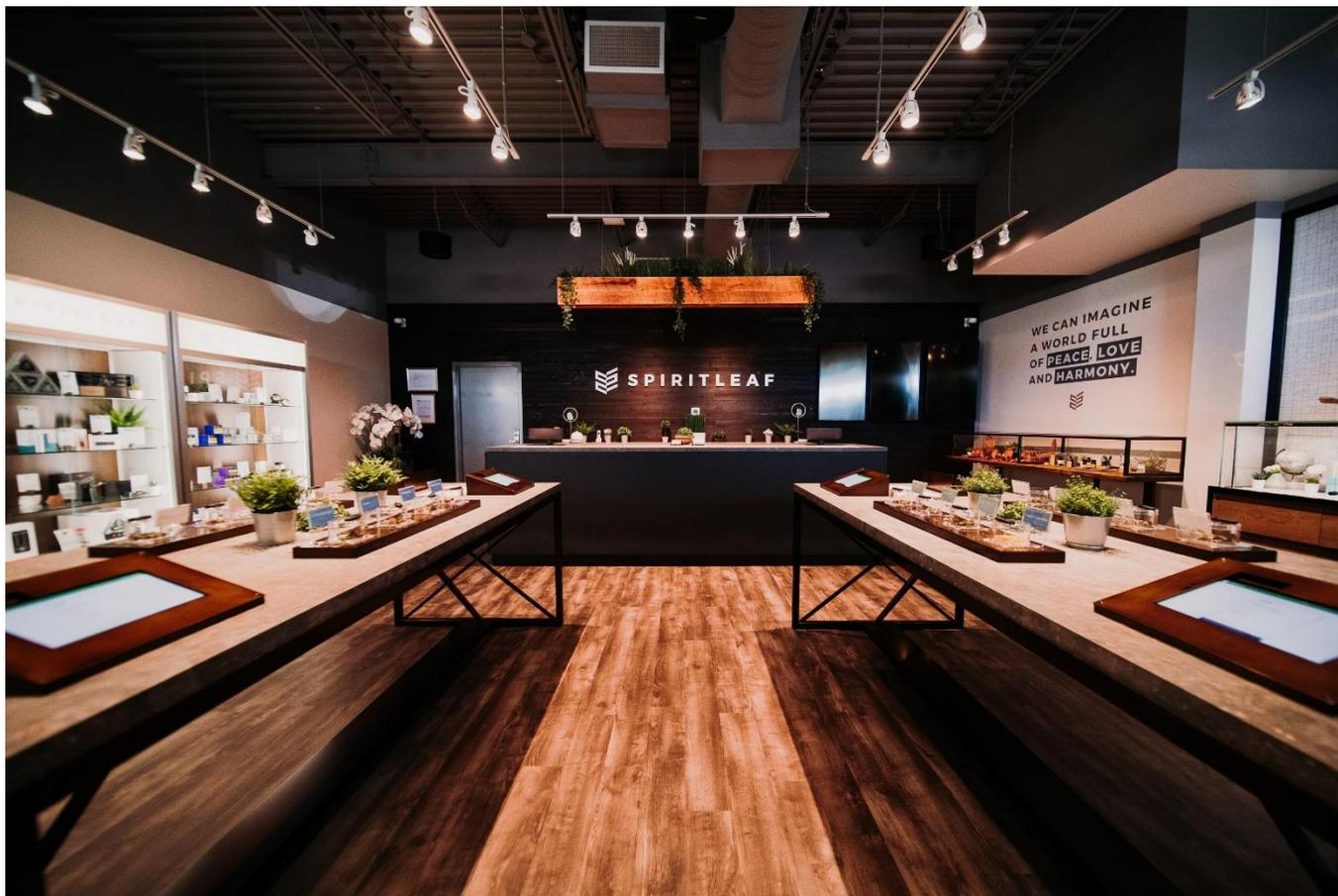


**INNER SPIRIT
HOLDINGS**



Inner Spirit Holdings Ltd.

Management's Discussion and Analysis

For the three months ended March 31, 2020

(Expressed in Canadian Dollars)

TABLE OF CONTENTS

Introduction	3
Non-IFRS Financial Measures.....	3
Corporate Overview	4
Q1 2020 & Subsequent Event Highlights	5
Results of Operations.....	8
Summary of Quarterly Results.....	10
Liquidity, Cash Flows, and Capital Resources	11
Capital Resources and Liquidity	12
Off-Balance Sheet Arrangements	13
Commitments.....	13
Related Parties	14
Outstanding Share Data	14
Recently Adopted Accounting Pronouncements	15
Critical Accounting Estimates	15
Financial instruments and risk management	17
Risk Factors.....	19
Forward-Looking Statements.....	22
Update to Previously Disclosed Forward-looking Statements.....	23
Additional Information.....	23

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 interim condensed consolidated financial statements for the three months ended March 31, 2020 (the "**Financial Statements**") and the audited consolidated financial statements of the Company for the year ended December 31, 2019. 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. The information in this MD&A is current as of June 16, 2020.

Non-IFRS Financial Measures*System-wide retail sales*

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 retail cannabis stores and by Company-owned Spiritleaf 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.

Adjusted EBITDA

This MD&A also makes reference to "Adjusted EBITDA" which is a Non-IFRS metric used by management that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management defines the Adjusted EBITDA as the Income (loss) for the period, as reported, before accretion and interest, tax, and adjusted for removing the share-based compensation expense, depreciation and amortization, unrealized gains and losses on securities, gains on sublease arrangements, and includes lease liability payments that would have been excluded from profit and loss due to the application of IFRS 16 accounting standards. Management believes "Adjusted EBITDA" is a useful financial metric to assess its operating performance on a cash basis before the impact of non-cash items.

A reconciliation of Net loss to Adjusted EBITDA is presented below:

For the three months ended March 31,	2020	2019
Net loss and comprehensive loss for period	\$ (1,944,167)	\$ (2,004,895)
Add back:		
Depreciation and amortization	367,331	466,423
Right of use asset depreciation	172,013	-
Share-based compensation	45,498	-
Unrealized loss (gain) on marketable securities	354,166	(72,539)
Gain on sublease arrangement	(210,005)	-
Financial guarantee liability expense	43,882	-
Interest income	(259,459)	-
Interest expense	303,333	142,921
Convertible debenture accretion	532,080	-
Interest expense (accretion) - leases	461,081	-
Adjusted EBITDA	\$ (134,247)	\$ (1,468,090)

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 operating subsidiaries: (i) Spirit Leaf Inc. ("**Spirit Leaf Inc**"), 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, (collectively referred to as "**Spirit Leaf**"). 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 has a fifth non-operating subsidiary, Watch It! Consolidated Ltd. ("**Watch It!**"), which is wholly-owned by the Company. 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. The historical operations of Watch It! have been accounted for as discontinued operations.

The organizational chart for the Company and its operating subsidiaries is as follows:



Description of the Business

The Company's current operations consist solely of the Spirit Leaf operations, which are comprised of:

- (i) the business of Spirit Leaf Inc, the franchise operations of the Company's cannabis business, which consists of the current operation, planned opening and ongoing support of Spiritleaf franchise partners by providing a turn-key operation which leverages the benefits of the Company's expertise in cannabis retail including store design, training, the proprietary Spirithub education program, industry leading point of sale and accounting systems, standard operating procedures, as well as ongoing support from the Spiritleaf support centre. Spirit Leaf Inc. collects initial franchise fees, royalties and also generates revenue through the sale of millwork, supplies and Spiritleaf accessories to Spiritleaf franchise and licensed retail cannabis stores in Alberta, British Columbia, Saskatchewan, Ontario, and Newfoundland and Labrador.
- (ii) the business of Spirit Leaf Macleod, a joint venture company with 101805 Alberta Ltd., which consists of the operation of a Spiritleaf retail cannabis store in Calgary, Alberta.
- (iii) the business of Spirit Leaf Corporate, which consists of the current operations of 10 wholly owned Spiritleaf retail corporate stores in Alberta and the planned opening of additional wholly owned corporate Spiritleaf retail cannabis stores in Alberta, Saskatchewan and Manitoba. Spirit Leaf Corporate 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.
- (iv) the business of Spirit Leaf Ontario, which consists of the planned acquisition of the Kingston, Ontario store and the opening of wholly owned corporate Spiritleaf retail cannabis stores in Ontario.

In addition, the Company 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.

Q1 2020 & Subsequent Event Highlights

- System wide sales increased 814% to \$17.2 million (vs \$1.9 million in Q1 of 2019) and 24% (vs. \$13.9 million in Q4 of 2019).
- Total revenue increased 840% to \$4.1 million (vs \$0.4 million in Q1 of 2019).
- Negative Adjusted EBITDA was reduced to \$0.1 million (vs. \$1.5 million in Q1 of 2019)
- The effective execution and roll-out of Cannabis 2.0 products which includes edibles, concentrates, vaporizer products, beverages and concentrates across the retail store network.
- The Spiritleaf Collective members' program which as of the date of this MD&A has over 45,000 members enrolled.
- The Company closed a private placement with Prairie Merchant Corporation for 6,000,000 common shares of the Company ("**Common Shares**"), at a price per Common Share of \$0.10, for aggregate gross proceeds of \$600,000. Concurrently, Prairie Merchant Corporation purchased another 6,000,000 Common Shares from a licensed producer.
- The Company closed a private placement offering for gross proceeds of \$1.1 million, issuing 10,854,542 Common Shares to a prestigious UK-based independent private equity firm and an additional private placement for aggregate gross proceeds of \$600,000, issuing 6,000,000 Common Shares at \$0.10 per share for a total amount invested of \$1.7 million.
- Several of the Company's LP shareholders cancelled an aggregate of 15,441,177 outstanding Common Share purchase warrants that effectively reduced the ownership of the Company by LPs to less than 25%. This strategic action along with the private placements enabled the Company to be eligible to apply for a Retail Operator Licence ("ROL") and to submit applications for Retail Store Authorizations ("RSAs") for corporate-owned Spiritleaf retail cannabis stores throughout Ontario.
- The Company appointed Manjit Minhas as Strategic Advisor which deepens the company's retail market & white label experience and adds government relations expertise.
- Company signed a master agreement with Atlantic Cultivation Limited to operate franchise Spiritleaf retail cannabis stores in Newfoundland and Labrador.
- Spirit Leaf Ontario secured a ROL for corporate-owned Spiritleaf retail cannabis stores and met Ontario's eligibility criteria for operating cannabis outlets in the province.
- The Company entered into a purchase agreement to acquire the existing Kingston, Ontario Spiritleaf cannabis store which has been operating under a retail agreement with an Ontario lottery winner and ROL holder since April 1, 2019.
- Spiritleaf has received a special industry designation from the Canadian Franchise Association. The Franchisees' Choice Designation was achieved due to exceptional survey satisfaction rankings from Spiritleaf franchise partners across the country. The designation is part of the Canadian Franchise Association's annual awards program to recognize franchising's best and brightest organizations.

Retail Store Network

The Company entered Q1 with 43 Spiritleaf stores and finished the quarter with 46 stores and subsequent to quarter-end opened two additional locations to bring the total Spiritleaf store count to 48.

The following table sets out the current and planned retail operations across Canada as of the date of this MD&A:

Province	Corporate Stores (1)	Franchise Stores	Corporate Licenses Pending (2)	Franchise Licenses Pending (2)	Total
British Columbia	0	6	0	1	7
Alberta	10	30	0	5	45
Saskatchewan	0	1	2	0	3
Manitoba	0	0	1	0	1
Ontario	0	1	4	20	25
Newfoundland	0	0	0	3	3
	10	38	7	29	84

(1) Includes one joint venture location, as well as the location on Main Street Canmore which is temporarily closed

(2) Premises currently held for Spiritleaf cannabis retail stores at various stages of licensing approvals and development
There is no assurance that these locations will obtain final licensing approvals.

Provincial Overview

British Columbia:

Franchise partners operated 6 Spiritleaf locations in British Columbia. The Vernon, Penticton, Maple Ridge, Castlegar, and West Kelowna locations all operated for the full quarter, and the Kelowna location opened on May 15th. A new location was secured in Langley, BC by an existing BC franchise partner. The application has been conditionally approved by the Liquor & Cannabis Regulation Branch, and an application has been submitted to the City of Langley for a municipal development permit. The Company continues to seek one additional opportunity in British Columbia to achieve the regulatory maximum of 8 cannabis retail stores licenses per group of related persons (which includes the Spiritleaf brand) through the end of 2021.

Alberta:

The Spiritleaf brand remained the top licence holder in Alberta with an aggregate of 40 retail cannabis licences held by corporate and franchise Spiritleaf retail cannabis stores. Spirit Leaf Corporate operated nine retail cannabis stores in Edmonton's Old Strathcona neighborhood on Whyte Avenue, Calgary's Beltline neighborhood on 10th Avenue SW, Canmore Road, 17th Ave SW (Calgary), Edmonton (Parsons Place), Jasper National Park, Canmore Main Street, Fort McMurray and Edmonton (Garneau). The Canmore Main Street store was closed in March due to the COVID-19 pandemic and remains closed as of the date of the MD&A.

Spirit Leaf Macleod continued to operate the Company's flagship location that also functions as Spiritleaf's in-store training and development centre.

During the month of May, Spirit Leaf's franchise partners operated 30 Spiritleaf franchise retail cannabis stores in Alberta including a new location that opened in the community of Kensington in Calgary at the end of April.

During the month of May, the Company's franchise partners have completed construction on three (two Calgary, one Red Deer) and continued construction on two (one each in Calgary and Edmonton) Spiritleaf stores in Alberta. Spirit Leaf franchise partners continue to work with the AGLC on final approvals of their municipally approved Alberta locations that are in various stages of development.

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 May 31, 2020, a total of 45 retail cannabis licenses have either been obtained or applied for by Spiritleaf locations.

Saskatchewan:

Spirit Leaf's franchise partner continued to operate the Company's flagship Saskatchewan Spiritleaf retail cannabis store in Moose Jaw and the e-commerce website (www.sk.spiritleaf.ca) selling cannabis throughout the entire Province.

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. The SLGA began accepting applications for cannabis retail permits in communities with populations less than 2,500 in April, and according to its previously disclosed intentions, it will begin accepting permit applications for stores in all communities in the province in September 2020.

Spirit Leaf Corporate has conditionally secured one location in Saskatoon and one in Regina and intends to apply for permit applications in September 2020 with anticipated openings in Q4 of 2020 or Q1 of 2021 depending on licensing and construction completion.

Manitoba

The Manitoba Government opened its cannabis retail application process to all prospective retailers starting June 1, 2020. The Company applied for an Age-Restricted License with Manitoba Liquor & Lotteries to operate a stand-alone corporate store in Winnipeg and has resumed franchise sales activity in the province for both Spiritleaf stand-alone stores and store-in-store operations under the controlled-access licence category.

Ontario

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) began 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 began 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.

On April 30th, 2020, the Company was granted its Retail Operator License and has one corporate location on Robertson Road in Nepean (Ottawa) which has passed all inspections and is in the queue to receive its RSA. Three additional corporate Ontario locations have been submitted and are in various stages of development and the Company intends on closing on the acquisition of the Kingston location on or about June 15, 2020.

The build-out of the Company's anticipated flagship Spiritleaf retail franchise cannabis store on Bloor Street, Toronto is complete and the location has passed its initial inspections and received its RSA. Locations on College Street (Little Italy, Toronto), Lawrence Avenue (Don Mills), Wellington West (Ottawa), Edinburgh Marketplace (Guelph) have also received their RSAs and are expected to open in June. Franchise partners have also completed their buildouts, passed initial inspections and are in the RSA licensing queue for Stittsville (Ottawa), and Fanshaw Park (London) with additional franchise locations under development and construction.

A total of 20 Spiritleaf (2 corporate and 18 franchise) locations have also been posted on the AGCO's website with their RSA application status reported as in progress with additional applications submitted and being processed.

Newfoundland and Labrador

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 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 one in Gander and one in Grand Falls-Windsor.

Inner Spirit Holdings Operational Update

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. The Company believes that the investment in its brand, its customer experience, product knowledge, its experience in operating retail outlets with coast-to-coast expertise in cannabis retail including store design, training, the proprietary Spirithub education program, industry leading point of sale and accounting systems, standard operating procedures, as well as ongoing support from the award-winning Spiritleaf support centre will allow it to offset some of the risks associated with any increased competition in the retail cannabis market. Furthermore, strategic partnerships with larger, established companies in the cannabis and investment industry (including Auxly Cannabis Group Inc., HEXO Corp., Tilray, Inc., High Times and Prairie Merchant Corporation) provide additional advantages.

- Positioned as Canada's leading retail cannabis brand with 48 locations across the country.
- Low-cost and highly scalable franchising model to maximize return on investment - more than 100 franchise and corporate locations either in operation or being developed in jurisdictions where permitted in Canada.
- Highly experienced team and proven business model with significant expertise in cannabis, branding, consumer retail, franchising, and real estate.
- Proven ability to license, open and operate cannabis store locations in an efficient manner in Alberta, Saskatchewan, British Columbia, and Ontario with plans for additional stores in these markets as well as Manitoba, Newfoundland and Labrador.
- Market-leading retail experience for consumers including the proprietary Collective customer "rewards" program and Spiritleaf Select & Collect online shopping and pick-up program.
- Aligned with Strategic partnerships and collaborations with premium producers, industry suppliers and strategic investors to create a fully integrated business model.

Impact of the COVID-19 Pandemic

During the quarter and as of the date of the MD&A, COVID-19 resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures included the implementation of travel bans, self-imposed quarantine periods, social distancing, and temporary closures of non-essential businesses.

The Company has reacted to the public health challenge by operating with enhanced customer service processes to ensure the health and safety of employees and customers by implementing enhanced in-store procedures including increased and frequent cleaning, installation of safety shields, provision of hand-sanitizer, masks and gloves to front-line employees. The Spiritleaf Select & Collect service also enables customers to pre-shop and order online prior to pick-up. Although the Company's services have been deemed to be essential in the provinces it operates with 47/48 stores remaining open and no meaningful impact on the Company's operations, if the impact of COVID-19 continues for an extended period, it may materially adversely affect the business operations and future financial results.

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 three months ended March 31, 2020 and 2019:

For the three months ended March 31,	2020	2019
System-Wide Retail Sales (1)	\$ 17,163,247	\$ 1,877,688
Revenue	\$ 4,133,752	\$ 439,783
Cost of sales	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	367,331	466,423
Right of use asset depreciation	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)
Other expenses		
Share-based compensation	45,498	-
Unrealized loss (gain) on marketable securities	354,166	(72,539)
Gain on sublease arrangement	(210,005)	-
Financial guarantee liability expense	43,882	-
Interest income	(259,459)	-
Interest expense	303,333	142,921
Convertible debenture accretion	532,080	-
Interest expense (accretion) - leases	461,081	-
	1,270,576	70,382
Net loss for the year from continuing operations	(1,944,167)	(1,803,323)
Net loss for the year from discontinued operations	-	(201,572)
Net loss and comprehensive loss for period	\$ (1,944,167)	\$ (2,004,895)

Note:

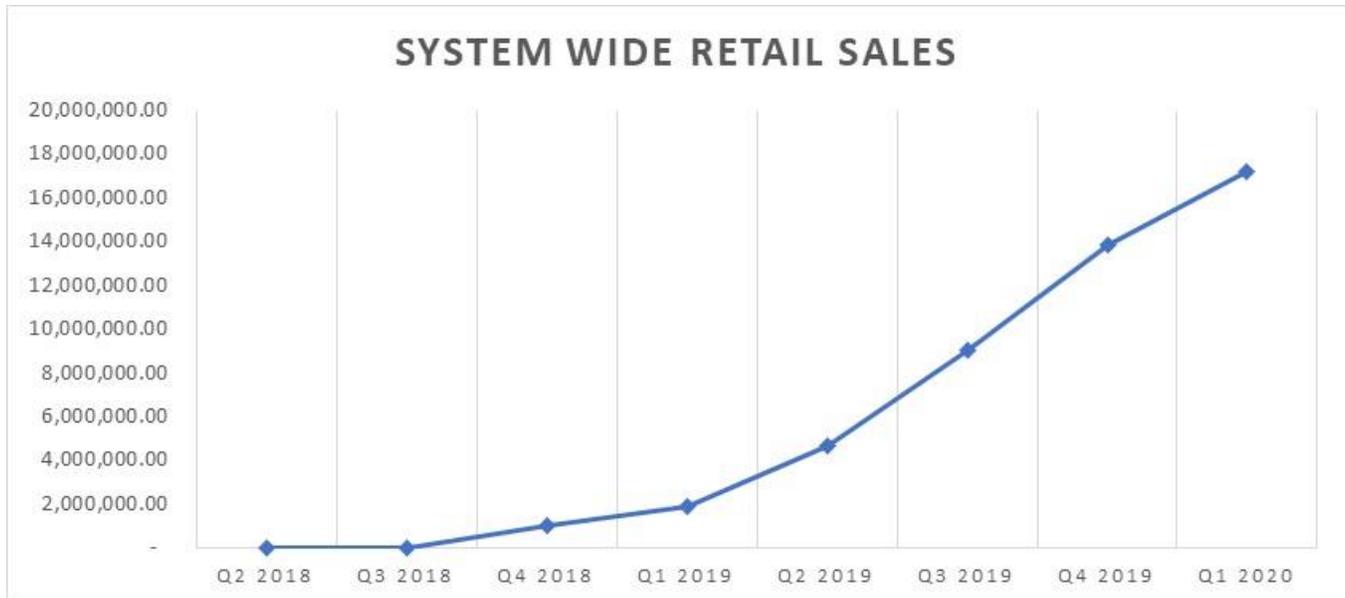
(1) System-wide retail sale is a non-IFRS measure that does not have a standardized meaning prescribed by IFRS.

See the "Non-IFRS Financial Measures" section of this MD&A.

System Wide Retail Sales

During the three months ended March 31, 2020, the Company achieved system-wide retail sales of \$17.2 million (2019 - \$1.9 million). The growth in system-wide retail sales was driven by the operation of 46 Spiritleaf corporate and franchised retail cannabis stores during the three months ended March 31, 2020 versus only having four stores open as at March 31, 2019.

The following chart shows the increase in quarterly system-wide retail sales over the last two years.



Revenue

Total revenue for the three months ended March 31, 2020 was \$4.1 million (2019 - \$0.4 million). Revenue increased by over \$3.7 million in Q1 of 2020 vs Q1 of 2019, representing an increase of 840%.

- The growth in total revenue is primarily attributable to the operation of 10 corporate owned cannabis retail stores (\$2.6 million vs. 2019 - \$0.008 million) and 35 franchise stores which paid ongoing royalties and advertising contributions totaling \$0.9 million (vs. 2019 - \$0.1 million) representing a 688% increase.
- Prior to opening, Spiritleaf franchised retail cannabis stores purchase millwork (store fixtures) from the Company, which resulted in increased revenues in Q1 of 2020 of \$0.3 million (vs. 2019 - \$0.2 million) due to more franchise retail stores opening in Q1 and preparing to open in Q2.
- Franchise fees deposits that are received by Spirit Leaf for new franchise sales and recorded as a liability on the balance sheet of the Company when a franchise agreement is fully signed are recognized as revenue and earned when a franchise store opens. In Q1 of 2020 the fees earned were \$0.07 million (vs. 2019 - \$0.04 million).
- Additionally, once a franchised retail cannabis store opens, there are ongoing sales of supplies and Spiritleaf accessories. Revenues increased in this category to \$0.2 million (vs. 2019 - \$0.07 million).

Gross Profit

Gross profit for the three months ended March 31, 2020 was \$2.0 million (2019 - \$0.2 million) or 47.6% (vs. 2019 - 53.6%) margin. Gross profit increased by \$1.8 million, representing a 734% increase vs 2019. The increase in gross profit was driven primarily by the growth in total revenue, which is discussed in the section above. While royalty revenue is earned at 100% margin, overall margins decreased primarily because of (i) the increase in revenue from the operation of the Company's corporately owned retail cannabis stores which achieved gross margins of 34%, and (ii) increased revenue from millwork sales to franchises which have margins under 5%.

Operating Expenses

Total operating expenses for the three months ended March 31, 2020 were \$2.6 million (2019 - \$2.0 million).

- General and administrative decreased by \$0.2 million (27%) as a result of a reduction in costs.
- Salaries increased from \$1.1 million (vs. 2019 - \$0.4 million) primarily because of having 10 corporate stores operating in Q1 of 2020 (vs. 2019 - zero) and incurring \$0.5 million (vs. 2019 - \$nil) in wages and an increase in support centre staff \$0.6 million (vs. 2019 - \$0.4 million).
- Occupancy costs increased as a result of having 10 corporate stores operating and a number of other locations being leased in preparation to receive future corporate licenses.
- Sales and marketing increased to \$0.2 million (vs. 2019 - \$0.08 million) as additional stores were open and contributing to the marketing fund, and additional funds were spent on marketing.

Operating Loss Before Other Expenses

The operating loss before other expenses was \$0.7 million (vs. 2019 - \$1.7 million). Negative Adjusted EBITDA was \$0.1 million (vs. 2019 - \$1.5 million). The improved operating performance and move towards positive EBITDA are a result of the Company now having revenues from operating corporate stores and more franchise stores while simultaneously reducing general and administrative costs.

Other Expenses

Total other expenses for the three months ended March 31, 2020 were \$1.3 million (2019 - \$0.07 million). The increase over the prior year relates primarily to the following:

- the unrealized loss on marketable securities of \$0.4 million (2019 – gain of \$0.07 million);
- the interest expenses of \$0.3 million (2019 - \$nil) and accretion of \$0.5 million (2019 - \$nil) from the convertible debentures issued in 2019;
- interest expense (accretion) on leases of \$0.5 million (2019 - \$nil) offset by finance income of \$0.3 million (2019 - \$nil) and a gain on sublease arrangements of \$0.2 million (2019 - \$nil) from the adoption of IFRS 16 by the Company effective January 1, 2019.

Net loss and comprehensive loss

For the three months ended March 31, 2020, the Company reported a net loss and comprehensive loss of \$1.9 million (2019 - \$2.0 million) which was primarily as a result of:

- amortization and interest/accretion costs which included accrued interest expense of \$0.3 million and accretion of \$0.5 million on the \$10 million debentures issued in 2019;
- depreciation of right of use assets due to adoption of IFRS 16;
- lease carrying costs incurred for potential locations for corporate and franchised retail cannabis stores.

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.

Performance Evaluation

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

- *System-Wide Retail Sales*: system-wide retail sales in the three months ended March 31, 2020 were \$17.2 million vs \$13.9 million from the prior quarter and \$1.9 million in the comparable period in the prior year;
- *Revenue*: revenue from Spirit Leaf in the three months ended March 31, 2020 was up \$3.7 million from the comparable period in 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 operating 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.

Three months ending,	31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18
Revenue - Continuing operations	\$ 4,133,752	\$ 3,805,074	\$ 3,066,668	\$ 802,743	\$ 439,783	\$ 224,065	\$ 358,575	\$ 12,179
Revenue - Discontinued operations	\$ -	\$ 1,656,137	\$ 924,972	\$ 973,138	\$ 813,312	\$ 1,787,394	\$ 1,186,205	\$ 1,212,796
Net loss - Continuing operations	\$ (1,944,167)	\$ (4,056,009)	\$ (2,506,637)	\$ (2,483,193)	\$ (1,803,323)	\$ (3,362,735)	\$ (803,077)	\$ (1,627,432)
Net loss - Discontinued operations	\$ -	\$ (164,328)	\$ 16,314	\$ (326,420)	\$ (201,572)	\$ (4,098,934)	\$ (119,535)	\$ (272,980)
Net and comprehensive loss	\$ (1,944,167)	\$ (4,220,337)	\$ (2,490,323)	\$ (2,809,613)	\$ (2,004,895)	\$ (7,461,669)	\$ (922,612)	\$ (1,900,412)
Basic loss per share	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.05)	\$ (0.01)	\$ (0.02)
Diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.05)	\$ (0.01)	\$ (0.02)

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:

- lower loss in quarter ended March 31, 2020, due to higher revenue from Spirit Leaf stores, and lower expenses due to no longer having the Watch It! operations that were discontinued in 2019;
- 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;
- the change in number of corporate and franchise stores which increased from zero until Q4 of 2018 and has since increased to 46 by the end of Q1 2020;
- increased salaries and wages as the organization grows and enters into commercialization and operation of its Spiritleaf corporate retail cannabis stores and supports the opening of Spiritleaf franchised retail cannabis stores;
- increased marketing and branding expenses related to building and growing the Company's Spiritleaf brand;
- an impairment charge of \$3.5 million recorded by the Company in the quarter ended December 31, 2018, relating to Watch It!;
- swings in unrealized losses or gains on marketable securities that were acquired by the Company pursuant to its transactions with strategic partners;
- share-based compensation expenses for (a) stock options that were issued through various quarters of 2019 and 2018, and (b) warrants issued throughout the quarters to various service providers and pursuant to transactions with strategic partners; and
- 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.

Liquidity, Cash Flows, and Capital Resources

Cash Flow Statement

For the three months ended March 31,	2020	2019
Cash provided by (used in) the following activities:		
Operating activities before working capital changes	\$ (219,505)	\$ (1,426,989)
Changes in non-cash working capital	(984,167)	1,233,636
Operating activities	(1,203,672)	(193,353)
Financing activities	1,392,124	2,955,075
Investing activities	372,547	(4,087,469)
Increase in cash	560,999	(1,325,747)
Cash and cash equivalents, beginning of period	2,026,054	3,375,588
Cash and cash equivalents, end of period	\$ 2,587,053	\$ 2,049,841

In addition to the cash and cash equivalents of \$2.6 million, as presented on the statement of cash flow, the Company has 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 \$3.8 million.

Operating Activities

For the three months ended March 31, 2020, cash flows used in operating activities were \$1.2 million (2019 - \$0.2 million), primarily due to increased expenses associated with the operations of Spirit Leaf corporate stores and the support of franchise stores.

For the three months ended March 31, 2020, operating activities were affected by a net decrease in non-cash working capital balances of \$1.0 million (2019 - increase \$1.2 million) mainly as a result of the following items:

- an increase in accounts receivables of \$0.7 million (2019 - \$0.4 million), largely due to increased revenue;
- an increase in prepaid expenses and deposits of \$0.5 million (2019 - \$0.02 million), largely due to increased operations;
- a decrease in inventory of \$0.2 million (2019 - \$0.1 million), due to increased sales by Spiritleaf stores and efficient inventory turns;
- a decrease in accounts payable and accrued liabilities of \$0.4 million (2019 - \$0.2 million), as revenue continued to increase, and since a \$10 million convertible debenture financing was completed in 2019, providing the Company sufficient cash to turnover payables quickly;
- an increase in current lease liabilities of \$0.3 million (2019 - \$1.7 million) as the Company secured additional Spiritleaf locations.
- and increase in prepaid sales deposits from franchises of \$0.2 million (2019 - \$nil) as franchises started ordering inventory and placing deposits on millwork to be delivered.

Financing Activities

For the three months ended March 31, 2020, cash provided by financing activities was \$1.4 million (2019 - \$2.9 million) primarily due to issuance of share capital of \$1.7 million (2019 - \$1.5 million) in the period. The Company also recorded \$0.3 million (2019 - \$0.3 million) in cash use in lease payments. In 2019, the Company also received a \$1.8 million short term note payable which was paid back in 2019.

Investing Activities

For the three months ended March 31, 2020, total cash provided by investing activities was \$0.4 million (2019 – used \$4.1 million), from the disposition of property and equipment of \$0.3 million (2019 - \$nil), and the reduction in lease assets of \$0.3 million from subleases with franchises. Additional property and equipment was acquired for Spirit Leaf build outs using cash of \$0.3 million (2019 – \$nil). In 2019, \$2.5 million was used to acquire store permits, and another \$1.1 million to acquire franchise stores.

Subsequent Financing Activity

In conjunction with the COVID-19 pandemic, the Provincial and Federal governments have implemented various programs to help mitigate the financial impact of the pandemic to businesses, including Canada Emergency Business Accounts in the form of interest free loans to fund the Company's non-deferrable operating expenses until December 31, 2022. Subsequent to March 31, 2020, the Company applied for and received a total of \$120,000 in such loans through each of the Company's operating subsidiaries. The loans have no repayments terms and are non-interest bearing during the initial term, until December 31, 2022. If the loan balances are repaid in full on or before December 31, 2022, 25% of the loans will be forgiven. On December 31, 2022, any remaining outstanding loan balances will be converted into three-year term loans at fixed interest rates of 5% per annum, with payments commencing January 31, 2023. The loans plus accrued interest must be repaid in full by December 31, 2025. The funds are being utilized to increase various COVID protection measures for employees and customers in the stores as well as for general working capital purposes.

Capital Resources and Liquidity

The Financial Statements for the three months ended March 31, 2020 and 2019 are prepared by management in accordance with IFRS on a going concern basis, which assumes that the Company will be able to continue to operate for the foreseeable future. However, the Company is exposed in varying degrees to a variety of financial risks, including liquidity risk and market risks with respect to its ability to raise capital through equity markets under acceptable terms and conditions.

The Company has incurred losses since incorporation and as of March 31, 2020 had an accumulated deficit of \$26.1 million (December 31, 2019 - \$24.2 million). The Company is in the development stage of expanding by opening corporate Spiritleaf retail cannabis stores and supporting the opening of franchised Spiritleaf retail cannabis stores across Canada.

Liquidity is primarily influenced by the operational performance of franchised and corporate Spiritleaf 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 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 March 31, 2020, 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.

Statement of Financial Position

The following table sets out certain selected financial position data as at March 31, 2020 and December 31, 2019:

As at,	31-Mar-20	31-Dec-19
Total Current Assets	\$ 9,176,416	\$ 7,200,673
Total Non-Current Assets	15,456,369	15,549,035
Total Assets	24,632,785	22,749,708
Total Current Liabilities	4,429,183	4,087,646
Total Non-Current Liabilities	18,711,364	16,941,549
Total Liabilities	23,140,547	21,029,195
Total Shareholders' Equity of Parent	1,838,848	2,052,132
Non-Controlling Interest	(346,610)	(331,619)
Total Shareholders' Equity	1,492,238	1,720,513
Total liabilities and equity	\$ 24,632,785	\$ 22,749,708

As at March 31, 2020, the Company had total assets of \$24.6 million (December 31, 2019 - \$22.7 million), an increase of \$1.8 million. The increase in total assets resulted primarily from the cash raised a private placement, the increase in accounts receivable, the increase in prepaid expenditures and the increase in net investment in subleases.

As at March 31, 2020, the Company had total liabilities of \$23.1 million (December 31, 2019 - \$21.0 million), an increase of \$2.1 million. The increase in total liabilities resulted from the accrued interest on the convertible debentures issued and an increase in lease liabilities due to the increased number of Spirit Leaf stores.

Off-Balance Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

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 Leases of the Financial Statements.

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

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.

	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.

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 March 31, 2020, the Company had 223,090,837 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, June 16, 2020.

Securities Outstanding	Number or Principal Amount Outstanding	Expiry Date	Exercise Price	Number of Common Shares Outstanding or 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 options	15,477,500	February 28, 2023 to March 31, 2025	\$0.10 to \$0.20	15,477,500
Warrants				
IPO unit w arrants	12,500,000	July 31, 2020	\$0.30	12,500,000
Service w arrants	2,010,500	July 23, 2020 to April 3, 2023	\$0.10 to \$0.30	2,010,500
Agent's w arrants	4,792,800	July 31, 2020 to November 24, 2020	\$0.15 to \$0.25	4,792,800
Debenture w arrants	20,000,000	November 24, 2020	\$0.25	20,000,000
Total w arrants	39,303,300			39,303,300
Fully diluted				323,871,637

Common Shares

During the three months ended March 31, 2020, the Company issued 16,854,542 common shares at a price of \$0.10 per share.

Stock Options

During the three months ended March 31, 2020, the Company granted 500,000 options with an exercise price of \$0.10 per share. During the three months ended, March 31, 2020, 725,000 options with a weighted average exercise price of \$0.13 per share were forfeited, as a result of discontinued operations in 2019.

Warrants

During the three months ended March 31, 2020, the Company did not issue any warrants. During the three months ended, March 31, 2020, 15,691,177 warrants with exercise prices of \$0.30 per share, expired unexercised or were cancelled pursuant to agreement. Subsequent to the three months ended March 31, 2020, 700,000 warrants with exercise prices of \$0.10 - \$0.15 per share, expired unexercised.

Convertible Debentures

During the three months ended March 31, 2020, the Company did not issue any convertible debentures

Recently Adopted Accounting Pronouncements

During the period ended March 31, 2020, there were no recently adopted accounting pronouncements.

See the annual audited financial statements for recently adopted accounting pronouncements for the prior year, related to IFRS 16 Leases.

Critical Accounting Estimates

A summary of the Company's significant accounting judgements and estimates is contained in Note 2 to the annual audited 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 at 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 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 March 31, 2020, the Company's financial instruments consist of cash, short-term deposits, accounts receivable, marketable securities, investments, loans to franchise partners, accounts payable, prepaid sales deposits from franchises, 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 \$1.2 million (December 31, 2019 - \$1.2 million) guaranteed investment certificate ("GIC") with a Canadian chartered bank with a 2% interest rate per annum. 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 three months ended March 31, 2020 and 2019, 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 \$1.7 million is net of provision for expected credit losses of \$nil. The balance consists of: (i) receivables from Spirit Leaf's franchisees for franchisee fees, royalty and advertisement charges and for millwork sold, and (ii) an ongoing account held with PayPal. A large portion of the accounts receivable at March 31, 2020 were collected subsequent to the period ended; accordingly, no provision for expected credit losses was determined for these balances. The net carrying value of accounts receivable as at the period ended represents the Company's maximum exposure to credit risk.

	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 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:

As at March 31, 2020	Maturity			Total
	Within 1 year	1-5 years	Greater than 5 years	
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	Maturity			Total
	Within 1 year	1-5 years	Greater than 5 years	
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

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 \$34,826 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 the 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 receives a 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. 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 securities 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 securities will be affected by such volatility. An active public market for the Company's securities might not develop or be sustained. If an active public market for the Company's securities does not develop, the liquidity of a shareholder's investment may be limited, and the security 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 when 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 remain 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.

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 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 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.

Update to Previously Disclosed Forward-looking Statements

The short form prospectus of the Company dated May 17, 2019, under the section "Use of Proceeds - Negative Operating Cash Flow - Maximum Offering", contains a statement indicating that the Company expects to realize positive cash flows from operating activities beginning in January 2020 and continuing thereafter based on a number of assumptions, including that Spiritleaf-branded retail cannabis stores opened by the Company and franchisees of Spirit Leaf Inc. will achieve a range of between \$200,000 to \$250,000 in monthly gross sales while in operation, as per the Company's cash flow forecasts. As at March 31, 2020, the Company did not realize positive cash flows from operating activities as expected, and during the three months ended March 31, 2020 the Company incurred negative cash flows from operations in the amount of \$1.2 million. This was primarily the result of Spiritleaf retail cannabis stores opened by the Company and franchisees of Spirit Leaf Inc. achieving lower monthly gross sales while in operation than was expected in the Company's cash flow forecasts.

Additional Information

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