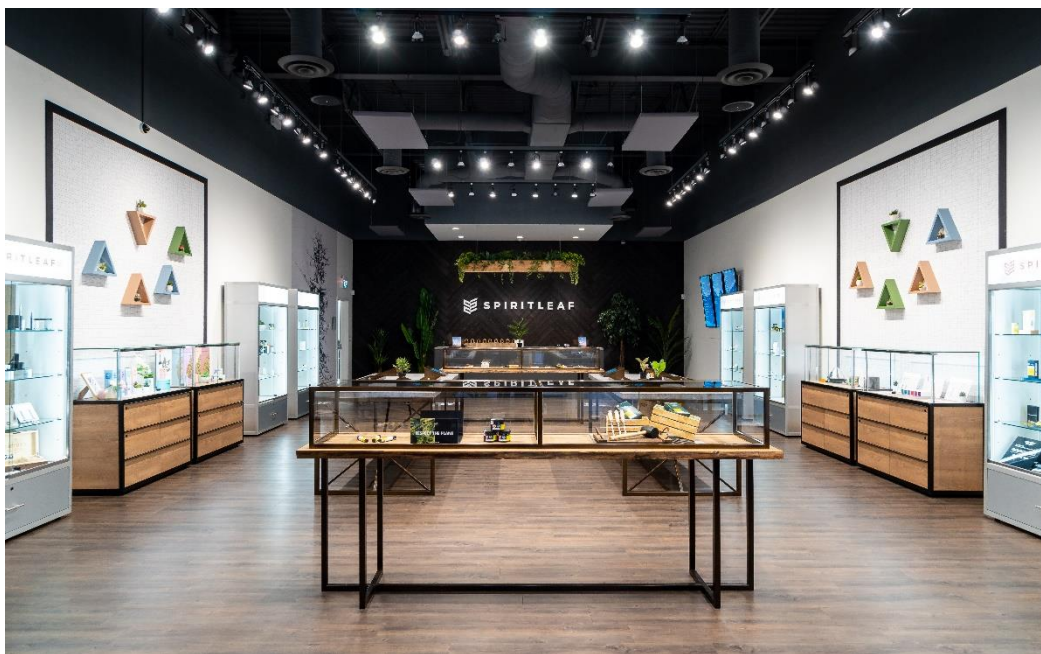


**INNER SPIRIT
HOLDINGS**



Inner Spirit Holdings Ltd.

Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 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.

Inner Spirit Holdings Ltd.
Interim Condensed Consolidated Statements of Financial Position

As at		June 30, 2020	December 31, 2019
ASSETS	Notes	(Unaudited)	(Audited)
Current			
Cash		\$ 3,380,516	\$ 2,026,054
Short-term deposits		-	1,200,000
Accounts receivable		1,499,017	975,949
Marketable securities	4	273,776	630,988
Prepaid expenses and deposits		527,805	165,043
Inventory	6	1,363,380	1,415,730
Loans to franchise partners	8	120,000	260,064
Net investment in subleases	7	1,307,727	526,845
Total current assets		8,472,221	7,200,673
Non-current			
Investments	5	71,434	71,434
Loans to franchise partners	8	-	279,819
Franchise inducements	9	978,603	1,035,111
Store permits	9	2,139,010	2,502,866
Lease deposits	7	292,211	872,876
Right-of-use assets	7	3,572,523	5,490,969
Net investment in subleases	7	5,234,651	2,137,222
Property and equipment	10	3,765,609	3,158,738
Total assets		\$ 24,526,262	\$ 22,749,708
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities		\$ 1,061,754	\$ 884,622
Convertible debentures interest payable	13	-	723,300
Current portion of lease liabilities	7	2,077,461	1,752,654
Franchise fee deposits	11	245,000	72,500
Prepaid sales deposits from franchisees		80,000	-
Deferred revenue	4	341,031	341,031
Payable to non-controlling interest	16	311,671	311,671
Unredeemed gift card liability	12	6,152	1,868
Total current liabilities		4,123,069	4,087,646
Non-current			
Franchise fee deposits	11	445,000	795,000
Lease liabilities	7	8,502,651	6,902,134
Financial guarantee liability	7	321,958	305,921
Convertible debenture	13	9,306,034	8,241,873
Deferred revenue	4	526,105	696,621
CEBA loans		120,000	-
Total liabilities		23,344,817	21,029,195
Equity			
Share capital	14	23,272,884	21,007,107
Contributed surplus		2,637,390	1,355,536
Conversion feature on convertible debentures	13	497,211	497,211
Warrants	13,14d	2,503,038	3,415,982
Deficit		(27,375,301)	(24,223,704)
Equity attributable to owners of the company		1,535,222	2,052,132
Non-controlling interest	16	(353,777)	(331,619)
Total shareholders equity		1,181,445	1,720,513
Total liabilities and shareholders equity		\$ 24,526,262	\$ 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.

Inner Spirit Holdings Ltd.

**Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)**
For the Three and Six Months Ended June 30, 2020 and 2019

For the three and six months ended June 30,		Three months ended June 30		Six months ended June 30	
		2020	2019	2020	2019
Revenue	Notes				
Retail		\$ 3,587,773	\$ 31,864	\$ 6,228,836	\$ 39,942
Royalties		842,894	229,829	1,581,019	323,468
Advertising		172,714	45,966	320,663	64,694
Millwork		429,392	312,315	756,850	503,487
Franchise fee		167,500	57,500	241,250	101,250
Supply and other		221,777	125,269	427,183	209,685
Total revenue		5,422,050	802,743	9,555,801	1,242,526
Cost of sales	6	2,881,177	345,144	5,047,860	549,178
Gross profit		2,540,873	457,599	4,507,941	693,348
Operating expenses					
Salaries, wages, and benefits		1,047,476	560,713	2,152,070	996,927
Sales and marketing		222,834	169,232	418,236	253,478
General and administrative		531,610	1,634,233	1,167,333	2,506,581
Occupancy costs		225,596	288,681	391,192	398,069
Right-of-use assets depreciation	7	170,644	143,820	342,657	530,796
Depreciation and amortization	9,10	369,328	111,491	736,659	190,938
Total operating expenses		2,567,488	2,908,170	5,208,147	4,876,789
Operating loss before other expenses		(26,615)	(2,450,571)	(700,206)	(4,183,441)
Unrealized loss (gain) on marketable securities	4	-	(208,991)	357,212	(281,528)
Realized loss on marketable securities	4	3,046	-	-	-
Gain on sublease arrangement	7	(533)	-	(210,538)	-
Financial guarantee liability expense	7	(27,845)	-	16,037	-
Finance income	7	(289,353)	-	(548,812)	-
Interest expense (accretion) - leases	7	462,282	-	923,363	-
Interest expense	13	199,884	254,737	503,217	329,492
Convertible debenture accretion	13	532,080	-	1,064,161	-
Share-based compensation	14c	323,412	55,111	368,909	55,111
		1,202,973	100,857	2,473,549	103,075
Net loss for the period from continuing operations		\$ (1,229,588)	\$ (2,551,428)	\$ (3,173,755)	\$ (4,286,516)
Net loss for the period from discontinued operations	1	-	(258,255)	-	(527,992)
Net loss and comprehensive loss for period		\$ (1,229,588)	\$ (2,809,683)	\$ (3,173,755)	\$ (4,814,508)
Net loss and comprehensive loss attributed to:					
Owners of the Company		(1,222,421)	(2,798,757)	(3,151,597)	(4,790,775)
Non-controlling interest	16	(7,167)	(10,926)	(22,158)	(23,733)
Net loss per share - Basic and diluted	15	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.04)
Net loss per share - continuing operations					
- Basic and diluted	15	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.03)
Net loss per share - discontinued operations					
- Basic and diluted	15	\$0.00	(\$0.00)	\$0.00	(\$0.01)

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

Inner Spirit Holdings Ltd.
Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)
For the Three and Six Months Ended June 30, 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	287,500	28,750	-	-	-	-	-	28,750
IFRS 16 adjustment	14	-	-	-	-	-	(284,426)	-	(284,426)
Bonus	14	250,000	50,000	-	-	-	-	-	50,000
Franchise inducement	14	5,000,000	1,000,000	-	-	-	-	-	1,000,000
Tilray equity swap	14	7,443,799	1,500,000	-	-	-	-	-	1,500,000
Share based compensation	14	-	-	55,111	-	-	-	-	55,111
Debenture Issuance	14	-	-	-	1,038,238	1,584,863	-	-	2,623,101
Net loss and comprehensive loss		-	-	-	-	-	(4,814,508)	23,733	(4,790,775)
Balance, June 30, 2019		206,236,295	\$ 21,050,410	\$ 780,248	\$ 1,038,238	\$ 3,533,664	\$ (18,082,971)	\$ 23,733	\$ 8,343,322
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	22,854,542	2,285,454	-	-	-	-	-	2,285,454
Share-based compensation	14c	-	-	368,909	-	-	-	-	368,909
Expiration of warrants	14d	-	-	912,945	-	(912,944)	-	-	1
Share issuance costs	14	-	(19,677)	-	-	-	-	-	(19,677)
Net loss and comprehensive loss		-	-	-	-	-	(3,151,597)	(22,158)	(3,173,755)
Balance, June 30, 2020		229,090,837	\$ 23,272,884	\$ 2,637,390	\$ 497,211	\$ 2,503,038	\$ (27,375,301)	\$ (353,777)	\$ 1,181,445

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

Inner Spirit Holdings Ltd.
Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)
For the Three and Six Months Ended June 30, 2020 and 2019

For the six months ended June 30,	Notes	2020	2019
Cash provided by (used in) the following activities:			
Operating			
Net loss for the period		\$ (3,173,755)	\$ (4,814,508)
Adjustments for:			
Non-cash deferred revenue	4	170,516	137,782
Unrealized loss (gain) on marketable securities	4	357,212	(281,528)
Right-of-use assets depreciation	7	342,657	798,044
Gain on subleasing arrangements	7	(210,538)	-
Financial guarantee liability expense	7	16,037	-
Finance income	7	(548,812)	-
Interest expense (accretion) - leases	7	923,363	-
Fair value adjustment, net of accretion on loans to franchisees	8	(96,784)	-
Amortization and depreciation	9,10	736,659	190,938
Convertible debenture accretion	13	1,064,161	-
Share-based compensation	14c	368,909	55,111
Changes in non-cash working capital balances	21	77,135	218,197
Cash flow provided by (used) in operating activities		26,760	(3,695,964)
Financing			
Lease payments, net of amounts paid directly by sublease	7	(541,211)	(611,482)
Loan to franchise partners	8	(50,000)	-
Receipt of repayment of loan to franchise partners	8	566,667	-
Franchise fee deposits	11	(110,318)	-
Issuance of convertible debentures	13	-	10,000,000
Issuance of share capital, net of issuance costs	14	2,265,777	4,078,750
Payable to non-controlling interest	16	-	(271)
CEBA loans		120,000	-
Cash flow provided by financing activities		2,250,915	13,466,997
Investing			
Acquisition of Tilray shares	4	-	(1,500,000)
Franchise inducements	9	-	(1,251,850)
Acquisition of store permits	9	-	(2,402,026)
Acquisition of property and equipment	10	(1,270,809)	(1,028,681)
Disposition of property and equipment	10	347,596	-
Acquisition of franchise stores	10	-	(1,143,079)
Cash flow used in investing activities		(923,213)	(7,325,636)
Change in cash		1,354,462	2,445,397
Cash, beginning of period		2,026,054	3,375,588
Cash, end of period		\$ 3,380,516	\$ 5,820,985

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

Inner Spirit Holdings Ltd.
Notes to the Interim Condensed Consolidated Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2020 and 2019

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 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. Spirit Leaf Inc.'s primary business is the planned opening and ongoing support of franchise retail cannabis stores in Canadian jurisdictions where the private sale of recreational cannabis is permitted. Spirit Leaf Macleod's primary business is the current operation of a corporate retail cannabis store in Alberta. Spirit Leaf Corporate's primary business is the current operation and planned opening of wholly-owned corporate retail cannabis stores in Alberta, Saskatchewan and Manitoba. Spirit Leaf Ontario's primary business is the current operation and planned opening of wholly-owned corporate retail cannabis stores in Ontario.

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 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 six months ended June 30, 2020, the Company incurred a net loss and comprehensive loss of \$3,173,755 (June 30, 2019 - \$4,814,508) and, as of that date, had a deficit of \$27,375,301 (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 August 24, 2020.

2. BASIS OF PRESENTATION (CONTINUED)

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.

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 Ontario Inc.	100%
Spirit Leaf Macleod Inc.	50.1%

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.

Inner Spirit Holdings Ltd.
Notes to the Interim Condensed Consolidated Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2020 and 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	(357,212)
Fair market value, June 30, 2020	\$ 273,776

- 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 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 \$5,178 (June 30, 2019 - \$nil) has been recognized as revenue in the consolidated statement of loss and comprehensive loss. The remaining non-current liability is \$20,185 (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.

Subsequent to June 30, 2020, the Company sold 28,361 Tilray Shares for proceeds, net of selling costs of \$269,469, to hold nil Tilray Shares.

- 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 \$165,338 (June 30, 2019 - \$137,782) has been recognized as revenue in the consolidated statement of loss and comprehensive loss. The remaining non-current liability is \$505,920 (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. During the period ended June 30, 2020, the Auxly Warrants expired unexercised, out of the money.

Inner Spirit Holdings Ltd.
Notes to the Interim Condensed Consolidated Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2020 and 2019

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 June 30, 2020, the fair market value of the investment was \$71,434 (December 31, 2019 - \$71,434).

	30-Jun-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

	30-Jun-20	31-Dec-19
Spirit Leaf merchandise	\$ 1,088,007	\$ 261,685
Millwork	275,373	1,154,045
	\$ 1,363,380	\$ 1,415,730

	30-Jun-20	30-Jun-19
Inventory costs included in cost of sales		
Expensed inventories Spirit Leaf merchandise	\$ 4,257,666	\$ 69,692
Expensed inventories millwork	729,261	478,195
Expensed inventories other	60,933	1,291
	\$ 5,047,860	\$ 549,178

Included in cost of sales for the six months ended June 30, 2020 are inventory write-downs for damaged inventory and inventory shrinkage in the amount of \$5,880 (June 30, 2019 - \$nil).

7. LEASES

Right-of-use assets:

Below is a summary of the activities related to the right-of-use assets for the six months ended June 30, 2020.

Cost	30-Jun-20	31-Dec-19
Cost, beginning balance	\$ 6,662,847	\$ 4,790,127
Additions during the period	2,409,613	4,664,108
Terminations during the period	-	(457,917)
Derecognition upon sub-lease, during the period	(3,992,648)	(2,333,471)
Cost, ending balance	\$ 5,079,812	\$ 6,662,847

Accumulated depreciation

Beginning balance	\$ (1,171,878)	\$ -
Depreciation for the period - Continuing operations	(342,657)	(809,184)
Depreciation for the period - Discontinued operations	-	(362,694)
Derecognition upon sub-lease, during the period	7,246	-
Ending balance	\$ (1,507,289)	\$ (1,171,878)

Net book value	\$ 3,572,523	\$ 5,490,969
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Inner Spirit Holdings Ltd.
Notes to the Interim Condensed Consolidated Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2020 and 2019

7. LEASES (CONTINUED)

Below is a summary of the activity related to the net investment in subleases for the six months ended June 30, 2020.

	30-Jun-20	31-Dec-19
Net investment in subleases, beginning	\$ 2,664,067	\$ 207,680
Additions during the period	4,195,407	2,337,315
Finance income	548,812	234,930
Rents recovered (payments made directly to landlords)	(673,187)	(115,858)
Terminations	(192,721)	-
Net investment in subleases, ending	\$ 6,542,378	\$ 2,664,067
Of which are:		
Current portion	\$ 1,307,727	\$ 526,845
Non-current portion	\$ 5,234,651	\$ 2,137,222

The Company recorded a gain of \$210,538 (June 30, 2019 - \$nil) in its sublease arrangements.

Lease liability

Below is a summary of the activity related to the lease liabilities for the six months ended June 30, 2020.

	30-Jun-20	31-Dec-19
Beginning balance	\$ 8,654,788	\$ 4,997,807
Additions during the period	2,409,613	4,664,108
Terminations during the period	(193,254)	(493,566)
Accretion of lease liabilities - Continuing operations	923,363	1,190,988
Accretion of lease liabilities - Discontinued operations	-	112,025
Lease payments	(1,214,398)	(1,816,574)
Lease liabilities, ending balance	\$ 10,580,112	\$ 8,654,788
Of which are:		
Current lease liabilities	\$ 2,077,461	\$ 1,752,654
Non-current lease liabilities	\$ 8,502,651	\$ 6,902,134

Subsequent to June 30, 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 June 30, 2020, the Company entered into an asset purchase agreement with a franchisee and acquired all of the assets of the Kingston, Ontario franchise. The interest free loan was repaid as part of the acquisition.

Inner Spirit Holdings Ltd.
Notes to the Interim Condensed Consolidated Financial Statements
(Unaudited)
For the Three and Six Months Ended June 30, 2020 and 2019

8. LOANS TO FRANCHISE PARTNERS (CONTINUED)

		30-Jun-20		31-Dec-19
Balance, beginning of period	\$	539,883	\$	-
Loans issued in period		50,000		695,000
Repayments during the period		(566,667)		(58,333)
Fair value adjustment		136,265		(136,265)
Accretion for the period		(39,481)		39,481
Balance, end of period	\$	120,000	\$	539,883
Of which are:				
Current portion	\$	120,000	\$	260,064
Non-current portion	\$	-	\$	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	\$	2,771,035	\$	1,133,867	\$	3,904,902
Additions		-		-		-
Dispositions		-		-		-
June 30, 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)
Dispositions		-		-		-
Amortization for the period		(363,856)		(56,508)		(420,364)
June 30, 2020	\$	(632,025)	\$	(155,264)	\$	(787,289)
Net book value						
December 31, 2019	\$	2,502,866	\$	1,035,111	\$	3,537,977
June 30, 2020	\$	2,139,010	\$	978,603	\$	3,117,613

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 franchise inducement is accounted for as an intangible asset and is being amortized as per the Company's accounting policy.

During the period ended June 30, 2019, the Company acquired the Kingston store and will continue to amortize the inducement over the course of the lease at that location.

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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	24,807	299,792	-	946,210	1,270,809
Dispositions	-	(58,514)	-	(289,082)	(347,596)
June 30, 2020	\$ 141,438	\$ 1,352,038	\$ 54,563	\$ 3,140,809	\$ 4,688,848

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	(17,321)	(93,120)	(5,903)	(199,998)	(316,342)
June 30, 2020	\$ (74,001)	\$ (286,760)	\$ (21,115)	\$ (541,363)	\$ (923,239)

Net book value

December 31, 2019	\$ 59,951	\$ 917,120	\$ 39,351	\$ 2,142,316	\$ 3,158,738
June 30, 2020	\$ 67,437	\$ 1,065,278	\$ 33,448	\$ 2,599,446	\$ 3,765,609

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. 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.

	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)
New franchises sold	28,750	125,250	154,000
Store openings	121,250	(72,500)	48,750
Franchise fees earned	(241,250)	(73,750)	(315,000)
Balance as of June 30, 2020	\$ 315,000	\$ 375,000	\$ 690,000
Current portion, June 30, 2020			\$ 245,000
Long term portion, June 30, 2020			\$ 445,000

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12. UNREDEEMED GIFT CARD LIABILITY

The Company has outstanding \$6,152 (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 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	1,064,161	-	-	1,064,161
Balance as at June 30, 2020	\$ 9,306,034	\$ 497,211	\$ 1,271,112	\$ 11,074,357

For the six months ended June 30, 2020, the accrued interest on the convertible debentures totaled \$nil (December 31, 2019 – \$723,300), due to accrued interest being paid on June 30, 2020. Interest expense for the six months ended June 30, 2020 amounted to \$600,000 (June 30, 2019 – \$nil) and is recorded 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 investment	14b(v)	7,443,799	1,525,979
Balance, December 31, 2019		206,236,295	\$ 21,007,107
Private placements	14b(vi)	22,854,542	2,285,454
Share issuance costs		-	(19,677)
Balance, June 30, 2020		229,090,837	\$ 23,272,884

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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 six months ended June 30, 2020, a total of 22,854,542 shares were issued at a price of \$0.10 per share for gross proceeds of \$2,285,454 pursuant to private placements.
- (vii) Subsequent to June 30, 2020, a total of 106,383 shares were issued at a price of \$0.14 per share, for services rendered.

(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 June 30, 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		6,405,000	\$0.16
Forfeited during period		(755,000)	\$0.13
Balance, June 30, 2020		21,352,500	\$0.14
Exercisable, June 30, 2020		10,522,500	\$0.14

During the six months ended June 30, 2020, the Company granted 500,000 options with an exercise price of \$0.10 per share and 5,905,000 options with an exercise price of \$0.16 per share. During 2019, the Company granted 400,000 options with an exercise price of \$0.20 per share and 1,665,000 options with an exercise price of \$0.11 per share. One quarter of the stock options vest immediately and the remaining stock options granted vest one quarter on each of the first, second, and third anniversary of the grant date.

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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:

	30-Jun-20	31-Dec-19
Risk free interest rate (%)	1.35%	1.34% - 1.5%
Expected life (years)	5	5
Volatility rate (%)	123%	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 June 30, 2020.

Options outstanding	Weighted average exercise price	Weighted average remaining term (years)	Options exercisable
8,222,500	\$0.10	2.79	5,835,000
1,605,000	\$0.11	4.40	401,250
5,905,000	\$0.16	4.97	1,476,250
5,620,000	\$0.20	3.48	2,810,000
21,352,500	\$0.14	3.70	10,522,500

The share-based compensation expense recognized during the six months ended June 30, 2020, for these options was \$368,909 (June 30, 2019 - \$55,111).

(d) Warrants

The following table summarizes the balance of warrants outstanding and exercisable as at June 30, 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		(16,391,177)	(912,944)	\$0.29	
Balance, June 30, 2020		39,303,300	\$ 2,503,038	\$0.26	0.41
Exercisable, June 30, 2020		38,503,300		\$0.26	0.37

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14. SHARE CAPITAL (CONTINUED)

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.
- (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 six months ended June 30, 2020 for the warrants was \$nil (June 30, 2019 - \$nil).

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

	30-Jun-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 six months ended June 30, 2020, a total of 15,441,177 warrants with exercise prices of \$0.30 per share, were cancelled by agreement with the warrant holders.

During the six months ended June 30, 2020, a total of 950,000 warrants with exercise prices of \$0.10 - \$0.15 per share, expired unexercised.

(e) Securities held in escrow

In conjunction with the Company's initial public offering, 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 June 30, 2020, a total of 20,341,205 common shares, 1,584,000 options, and 1,886,030 warrants remain in escrow.

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15. NET LOSS PER COMMON SHARES

The calculation of basic and diluted loss per share for the six months ended June 30, 2020 was based on the net loss and comprehensive loss attributable to owners of the Company of \$3,151,597 (June 30, 2019 – \$4,790,775) divided by the weighted average number of common shares outstanding at the period ended of 222,743,675 (June 30, 2019 – 148,679,895).

The calculation of basic and diluted loss per share from continuing operations and discontinued operations for the period ended June 30, 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 at June 30, 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 June 30, 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.

Spirit Leaf Macleod Inc.	Numberco NCI Ownership	
	30-Jun-20	31-Dec-19
Net loss and comprehensive loss	\$ (44,404)	\$ (572,146)
Total loss and comprehensive loss attributable to NCI	(22,158)	(285,501)
Accumulated deficit allocated to NCI	(331,619)	(46,118)
Total non-controlling interest	\$ (353,777)	\$ (331,619)
Current assets	\$ 182,264	\$ 121,255
Non-current assets	523,028	530,755
Current liabilities	(352,803)	(320,289)
Non-current liabilities	(244,764)	(204,764)
Net assets	\$ 107,725	\$ 126,957
Cash flows used in operating activities	\$ (32,150)	\$ (3,574)
Cash flows provided by financing activities	40,000	79,160
Cash flows used in investing activities	(7,727)	(50,221)
Net increase in cash	\$ 123	\$ 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.

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17. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation provided to current key management and directors are as follows.

Six months ended	30-Jun-20	30-Jun-19
Short-term benefits	\$ 184,867	\$ 101,380
Long-term benefits (*)	15,293	-
	\$ 200,160	\$ 101,380

(*) 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 six months ended June 30, 2020, the Company paid \$60,935 (June 30, 2019 - \$34,385) in total rent and operating costs 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.

Pursuant to the sales agreement with Auxly (Note 4(ii)), for the six months ended June 30, 2020, a total of \$13,613 (June 30, 2019 – \$nil) was paid or accrued to Auxly.

As at June 30, 2020, there was \$15,213 (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 nine retail store leases during the period ended June 30, 2020, but the commencement date of these did not begin until after the quarter end, and as such the nine 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 nine leases (undiscounted) is as outlined below.

	30-Jun-20
2020	\$ 73,546
2021	\$ 609,094
2022	\$ 714,040
2023	\$ 725,590
Thereafter	\$ 5,202,764

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 June 30, 2020, is \$1,181,445 (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 \$nil (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 \$1,499,017 (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.

Accounts receivable	30-Jun-20	31-Dec-19
Current	\$ 599,817	\$ 342,882
31 – 60 days	373	2,570
61 – 90 days	96,952	9,532
Greater than 90 days	801,875	620,965
Accounts receivable	\$ 1,499,017	\$ 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.

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20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

	Maturity			Total
	Within 1 year	1-5 years	Greater than 5 years	
As at June 30, 2020				
Accounts payables and accrued liabilities	\$ 1,061,754	\$ -	\$ -	\$ 1,061,754
Convertible debentures interest payable	-	-	-	-
Payable to non-controlling interest	311,671	-	-	311,671
Refundable franchise fee deposits	245,000	445,000	-	690,000
Prepaid sales deposits from franchises	80,000	-	-	80,000
Lease liabilities (undiscounted cash flows)	2,736,514	11,502,130	5,090,930	19,329,574
Financial guarantee liability	-	321,958	-	321,958
Convertible debenture	-	10,000,000	-	10,000,000
	\$ 4,434,939	\$ 22,269,088	\$ 5,090,930	\$ 31,794,957
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

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 \$34,521 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.

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21. CHANGES IN NON-CASH WORKING CAPITAL

For the six months ended June 30,	2020	2019
Short-term deposits	\$ 1,200,000	\$ -
Accounts receivables	(523,068)	(737,675)
Prepaid expenses and deposits	(362,762)	21,277
Lease deposits	-	107,396
Inventory	52,350	107,651
Accounts payables and accrued liabilities	177,131	(618,324)
Short term note payable	-	250,000
Current portion of lease liabilities	-	843,947
Franchise fee deposits	172,500	262,500
Prepaid sales deposits from franchises	80,000	-
Unredeemed gift card liability	4,284	(18,575)
Convertible debentures interest payable	(723,300)	-
Increase in non-cash working capital balances	\$ 77,135	\$ 218,197

22. SUBSEQUENT EVENTS

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.