Inner Spirit Holdings Ltd.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

(Expressed in Canadian Dollars)

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Introduction

The following Management's Discussion and Analysis ("**MD&A**") of the financial results of Inner Spirit Holdings Ltd. ("**Inner Spirit**" or the "**Company**") should be read in conjunction with the interim condensed consolidated financial statements for the three and nine months ended September 30, 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 November 13, 2020.

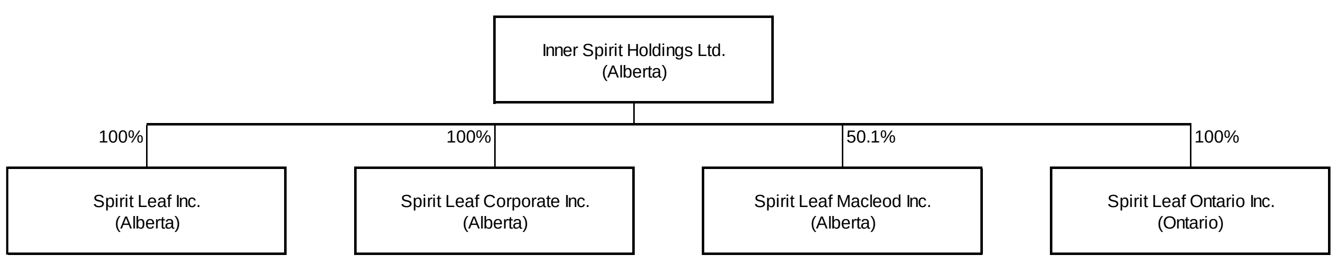
Corporate Overview

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 MD&A, the Company has four operating subsidiaries: (i) 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 one store and the related e-commerce business. The historical operations of Watch It! have been accounted for as discontinued operations, and the historical financial statements for the three and nine months ended September 30, 2019 have been restated for the 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 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 operation of 9 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.

(iv) the business of Spirit Leaf Ontario, which consists of the operation of wholly owned Spiritleaf retail cannabis stores in Kingston, Windsor and Ottawa, Ontario and the planned opening of other 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 distribution network, which, if and where permitted, may include online, wholly-owned retail cannabis stores and franchise retail cannabis stores.

Retail Store Network

The Company entered Q3 with 53 Spiritleaf stores and finished the quarter with 58 stores, and subsequent to quarter-end opened 7 additional locations to bring the total Spiritleaf store count to 65.

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 Stores Pending(2)	Franchise Stores Pending(2)	Total
British Columbia	0	6	0	1	**7**
Alberta	10	32	3	11	**56**
Saskatchewan	0	1	3	0	**4**
Manitoba	0	0	2	2	**4**
Ontario	3	11	2	19	**35**
Newfoundland	0	2	0	3	**5**
	13	**52**	**10**	**36**	**111**

(1) Includes one joint venture location.
(2) Premises currently held for Spiritleaf cannabis retail stores at various stages of licensing approvals and development, including locations for which leases have been secured but for which licences have yet to be applied for. There is no assurance that these locations will obtain required licences and approvals or that they will open, or the timing thereof.

Provincial Overview

British Columbia:

Franchise partners operated 6 Spiritleaf locations in British Columbia, in Vernon, Penticton, Maple Ridge, Castlegar, Kelowna, and West Kelowna, during the nine months ended September 30, 2020. A new location was secured in Langley, British Columbia by an existing British Columbia franchise partner. The franchise partner's application was 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 corporate or franchise 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 retail cannabis store licence holder in Alberta with an aggregate of 42 licences held by corporate and franchise Spiritleaf retail cannabis stores. Spirit Leaf Corporate operated 9 corporate Spiritleaf retail cannabis stores during the period ended September 30, 2020. These stores are located 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, Fort McMurray, Edmonton (Garneau) and in Lethbridge.

Spirit Leaf Macleod continued to operate the Company's flagship Spiritleaf retail cannabis store on Macleod Trail in Calgary, Alberta. The location, which is located near CF Chinook Centre, Calgary's largest mall, also functions as Spirit Leaf's in-store training and development centre.

Spirit Leaf's franchise partners operated 32 Spiritleaf franchise retail cannabis stores in Alberta during Q3. Additional Spirit Leaf franchise partners continue to work with Alberta Gaming, Liquor and Cannabis ("**AGLC**") on final approvals of their municipally approved Alberta locations that are in various stages of development.

The number of retail cannabis licences issued to a single group of persons (which includes the Spiritleaf brand) was limited by AGLC to a maximum of 45 licenses until October 17, 2020. As of September 30, 2020, a total of 45 retail cannabis licenses have either been obtained or applied for existing and proposed Spiritleaf retail cannabis stores. Effective November 1st, the licensing cap was removed and additional corporate and franchise applications have been submitted.

Saskatchewan:

Spirit Leaf's franchise partner continued to operate the Issuer's flagship Saskatchewan Spiritleaf retail cannabis store in Moose Jaw and the e-commerce website (www.sk.spiritleaf.ca) that sells 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 began accepting permit applications for stores in all communities in the province in September 2020.

Spirit Leaf Corporate has submitted an application which has been advanced to the due diligence process. The company has conditionally secured two locations in Saskatoon and one potential location in Regina with anticipated openings in 2021, subject to applicable licences being obtain and store build-outs being completed.

Manitoba

The Company applied for an Age-Restricted License with Manitoba Liquor & Lotteries to operate stand-alone corporate stores 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. Spirit Leaf has conditionally secured two corporate locations and two franchise locations in Winnipeg.

Ontario

The Company holds a Retail Operator License in the province of Ontario. On June 15, 2020 the Company acquired the existing Kingston, Ontario Spiritleaf retail cannabis store that was being operated by Spirit Leaf's retail partner. A corporate location on Robertson Road in Nepean, Ottawa opened in July and another location in Windsor opened in October 2020. Applications for Retail Store Authorization have been submitted for 2 additional corporate locations have been placed in the licensing queue and are expected to open in 2021.

During the period ended September 30, 2020, 7 franchise partners opened Spiritleaf retail cannabis stores and three additional stores opened subsequent to September 30,2020, in the following locations:

- Bloor West Village, Toronto
- College Street (Little Italy), Toronto
- Lawrence Avenue (Don Mills), Toronto
- Wellington West Village, Ottawa
- Edinburgh Market Place, Guelph
- London
- Stitsville
- Parkdale, Toronto
- Morningside, Scarborough
- Burlington

A total of 29 Spiritleaf (5 corporate and 24 franchise) locations have been posted on the Alcohol and Gaming Commission of Ontario (the "**AGCO**") website with their Retail Store Authorizations application status reported. Additional applications for Retail Store Authorizations have been submitted and continue to be 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.

During the period ended September 30, 2020, the Company's franchisee in Newfoundland and Labrador opened its first Spiritleaf retail cannabis store in 673 Topsail Road, St. John's. A second location subsequent to quarter end opened in Goulds. Additional stores that are under construction and being prepared for opening in the province in late 2020 and 2021 include one in St. John's, 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.

Operational highlights include:

- Positioned as Canada's leading retail cannabis brand with 65 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 British Columbia, Alberta, Saskatchewan, Ontario and Newfoundland and Labrador with plans for additional stores in these markets as well as in Manitoba.
- 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 ended 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 65 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.

Non-IFRS Financial Measures

This MD&A makes reference to "system-wide retail sales" and "adjusted EBITDA", (defined below), financial measures that are not determined or defined in accordance with IFRS. Such non-IFRS financial measures do not have a standardized meaning prescribed by IFRS and Inner Spirit's methods of calculating these financial measures may differ from methods used by other companies. Accordingly, such non-IFRS financial measures may not be comparable to similarly titled measures presented by other companies. These measures are 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

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 Earnings before interest, taxes, depreciation, and amortization ("Adjusted EBITDA")

Management defines the Adjusted EBITDA as the net and comprehensive income (loss) for the period, as reported, adjusted for right-of-use asset depreciation, depreciation and amortization, unrealized and realized gain (loss) on marketable securities, impairment loss, gain (loss) on sublease arrangement, financial guarantee liability expense, finance income, interest expense (accretion) - leases, interest expense, convertible debenture accretion, share-based compensation, taxes, and other non-cash and non-recurring items. Management believes Adjusted EBITDA is a useful financial metric to assess its operating performance prior to consideration of how operations are financed, how the results are taxed, and how the results are impacted by non-cash charges and charges that are irregular in nature or not reflective of the Company's core operations. The following table reconciles the Company's net loss and comprehensive loss, being the most directly comparable measure calculated in accordance with IFRS, to Adjusted EBITDA.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net loss and comprehensive loss for the period	$ (1,009,210)	$ (2,490,323)	$ (4,182,974)	$ (7,304,831)
Add back:				
Right of use asset depreciation	178,167	-	520,824	-
Depreciation and amortization	394,980	264,668	1,131,639	488,901
Unrealized loss (gain) on marketable securities	(357,212)	969,585	-	761,691
Realized loss (gain) on marketable securities	361,492	-	361,492	(73,634)
Impairment loss	508,622	1,070	508,622	1,070
Loss (gain) on sublease arrangement	1,401	-	(209,137)	-
Financial guarantee liability expense	58,096	-	74,133	-
Finance income	(308,112)	-	(856,924)	-
Interest expense (accretion) - leases	470,631	-	1,393,994	-
Interest expense	306,667	334,458	809,883	486,840
Convertible debenture accretion	514,278	-	1,578,439	-
Share-based compensation	166,660	-	535,570	55,111
Adjusted EBITDA	$ 1,286,460	$ (920,542)	$ 1,665,561	$ (5,584,852)

Q3 2020 & Subsequent Event Highlights

- System-wide sales increased 243% to $31.0 million for the three months ended September 30, 2020, versus $9.0 million in Q3 of 2019.
- System-wide sales increased 342% to $68.7 million for the nine months ended September 30, 2020, versus $15.5 million in the comparable period of 2019.
- Total revenue increased 152% to $8.1 million for the three months ended September 30, 2020, versus $3.2 million in Q3 of 2019.
- Total revenue increased 282% to $17.6 million for the nine months ended September 30, 2020, versus $4.6 million for the comparable period in 2019.
- The Company achieved an operating profit before other expenses of $0.7 million for the three months ended September 30, 2020, versus an operating loss of $1.0 million in the comparable period in 2019.
- Adjusted EBITDA increased to a positive $1.3 million for the three months ended September 30, 2020, from a negative $0.9 million in Q3 of 2019.
- Adjusted EBITDA increased to a positive $1.7 million for the nine months ended September 30, 2020, from a negative $5.6 million in the comparable period of 2019.
- The Spiritleaf Collective members' program currently has over 147,000 members enrolled.
- The Company closed private placements for gross proceeds of $0.72 million, issuing 6 million common shares of the Company to a UK-based independent private equity firm.
- Six additional stores have opened subsequent to September 30, 2020 including 5 franchise stores (1 in Goulds, Newfoundland, 3 in Ontario (Toronto, Scarborough and Burlington) and 1 in Calgary, Alberta as well as one corporate store in Windsor Ontario.
- Subsequent to September 30, 2020, 4 Franchise Agreements were entered into while 1 was terminated.

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 and nine months ended September 30, 2020 and 2019.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
System-Wide Retail Sales (1)	$ 31,010,096	$ 9,035,164	$ 68,658,718	$ 15,539,798
Revenue	$ 8,092,147	$ 3,217,186	$ 17,647,948	$ 4,618,002
Cost of sales	4,341,260	1,730,224	9,389,120	2,437,052
Gross profit	3,750,887	1,486,962	8,258,828	2,180,950
Operating expenses				
Salaries, wages, and benefits	1,464,037	791,883	3,616,107	1,788,811
Sales and marketing	199,061	157,691	617,297	411,168
General and administrative	688,892	716,136	1,856,234	3,440,436
Occupancy costs	112,437	573,357	503,629	1,543,230
Right of use asset depreciation	178,167	-	520,824	-
Depreciation and amortization	394,980	264,668	1,131,639	488,901
Total operating expenses	3,037,574	2,503,735	8,245,730	7,672,546
Operating profit (loss) before other expenses	713,313	(1,016,773)	13,098	(5,491,596)
Other expenses				
Unrealized loss (gain) on marketable securities	(357,212)	969,585	-	761,691
Realized loss (gain) on marketable securities	361,492	-	361,492	(73,634)
Impairment loss	508,622	1,070	508,622	1,070
Loss (gain) on sublease arrangement	1,401	-	(209,137)	-
Financial guarantee liability expense	58,096	-	74,133	-
Finance income	(308,112)	-	(856,924)	-
Interest expense (accretion) - leases	470,631	-	1,393,994	-
Interest expense	306,667	334,458	809,883	486,840
Convertible debenture accretion	514,278	-	1,578,439	-
Share-based compensation	166,660	-	535,570	55,111
	1,722,523	1,305,113	4,196,072	1,231,078
Net loss from continuing operations	$ (1,009,210)	$ (2,321,886)	$ (4,182,974)	$ (6,722,674)
Net loss from discontinued operations	-	(168,437)	-	(582,157)
Net loss and comprehensive loss for period	$ (1,009,210)	$ (2,490,323)	$ (4,182,974)	$ (7,304,831)

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 and nine months ended September 30, 2020, the Company achieved system-wide retail sales of $31.0 million (2019 - $9.0 million) and $68.76 million (2019 - $15.5 million) respectively. The growth in system-wide retail sales was driven was driven by the opening and operation of 25 new stores during the current period, increasing total store count from 33 at September 30, 2019 to 58 as at September 30, 2020.

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 September 30, 2020 was $8.1 million (2019 - $3.2 million). Revenue increased by $4.9 million in Q3 of 2020 versus Q3 of 2019, representing an increase of 151.5%.

Total revenue for the nine months ended September 30, 2020 was $17.6 million (2019 - $4.6 million). Revenue increased by $13.0 million for the nine months ended September 30, 2020 versus the nine months ended September 30, 2019, representing an increase of 282.2%.

The growth in total revenue is primarily attributable to:
i) the operation of 12 corporate owned cannabis retail stores
  - generating $5.7 million of retail revenue in the three months ended September 30, 2020 versus $1.1 million of revenue in the comparable period of 2019,
  - generating $11.9 million of retail revenue in the nine months ended September 30, 2020 versus $1.2 million of revenue in the comparable period of 2019, and
ii) 46 franchise stores which paid ongoing royalties and advertising contributions
  - totaling $1.5 million for the three months ended September 30, 2020 (versus 2019 - $0.5 million).
  - totaling $3.4 million for the nine months ended September 30, 2020 (versus 2019 - $0.9 million).

Prior to opening, Spiritleaf franchised retail cannabis stores purchase millwork (store fixtures) from the Company, which resulted in revenues of $0.4 million for the three months ended September 30, 2020 versus $0.9 million in the same period of 2019. For the nine months ended September 30, 2020, the millwork revenue was $1.2 million versus $1.6 million for the comparable prior period. The lower millwork revenue for the current periods versus the prior year's periods ended was the result of more franchise stores in the prior period pre-purchasing store fixtures in anticipation of opening.

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. For the three months ended September 30, 2020, the fees earned were $0.1 million versus $0.3 million in the comparable period in 2019. For the nine months ended September 30, 2020, the fees earned were $0.3 million versus $0.4 million in the comparable period in 2019. The lower franchise fee revenue in the current periods versus the comparable periods in 2019 was the result of more franchise stores opening in the prior periods.

Additionally, once a franchised retail cannabis store opens, there are ongoing sales of supplies and Spiritleaf accessories. Revenues increased in this category to $0.42 million for the three months ended September 30, 2020, versus $0.39 million in the comparable period in 2019. For the nine months ended, revenues increased to $0.8 million versus $0.6 million in the comparable period in 2019.

Gross Profit
Gross profit for the three months ended September 30, 2020 was $3.8 million (2019 - $1.5 million) or 46.4% (2019 – 46.2%) margin. Gross profit increased by $2.3 million, representing a 152.3% increase versus 2019.

Gross profit for the nine months ended September 30, 2020 was $8.3 million (2019 - $2.2 million) or 46.8% (2019 – 47.2%) margin. Gross profit increased by $6.1 million, representing a 278.7% increase over 2019.

The increase in gross profit was driven primarily by the growth in total revenue, which is discussed in the section above.

Operating Expenses

Total operating expenses for the three months ended September 30, 2020 were $3.0 million (2019 - $2.5 million). For the three months ended September 30, 2020 compared to the comparable period in 2019:

- Salaries increased by $0.7 million primarily because of having 12 corporate stores operating in Q3 of 2020 versus 7 corporate stores in Q3 of 2019, and thus incurring increased employment costs for additional employees and support centre staff.
- Occupancy costs decreased by $0.5 million and right of use asset depreciation increased by $0.2 million, as a result of the implementation of IFRS 16;
- Depreciation and amortization increased by $0.1 million as a result of an increase in depreciable assets as operations increased.

Total operating expenses for the nine months ended September 30, 2020 were $8.2 million (2019 - $7.7 million). For the nine months ended September 30, 2020 compared to the comparable period in 2019:

- General and administrative decreased by $1.6 million (46.0%), as a result of lower administrative costs.
- Salaries increased by $1.8 million primarily because of having 12 corporate stores operating in 2020 versus 7 corporate stores in 2019, and thus incurring increased employment costs for additional employees and support centre staff.
- Sales and marketing increased by $0.2 million as additional stores were open and contributing to the marketing fund, allowing for additional funds to be spent on marketing.
- Occupancy costs decreased by $1.0 million and right of use asset depreciation increased by $0.5 million, as a result of the implementation of IFRS 16;
- Depreciation and amortization increased by $0.6 million as a result of an increase in depreciable assets as operations increased.

Operating Profit (Loss) Before Other Expenses

The operating profit before other expenses was $0.7 million for the three months ended September 30, 2019 versus an operating loss of $1.0 million for the comparable period in 2019. The operating profit before other expenses was $0.01 million for the nine months ended September 30, 2019 versus an operating loss of $5.5 million for the comparable period in 2019.

Adjusted EBITDA was $1.3 million for the three months ended September 30, 2019 versus negative $0.9 million for the comparable period in 2019. Adjusted EBITDA was $1.7 million for the nine months ended September 30, 2019 versus negative $5.6 million for the comparable period in 2019. The improved operating performance and move to positive Adjusted EBITDA are a result of the Company now generating revenues from having operating corporate stores and more franchise stores while simultaneously reducing general and administrative costs.

Other Expenses

Total other expenses for the three months ended September 30, 2020 were $1.7 million versus $1.3 million in 2019. The increase in the three months ended over the prior year relates primarily to the following:

- realized loss on marketable securities of $0.4 million (2019 – $nil);
- impairment loss on intangible assets of $0.5 million (2019 - $nil)
- accretion expense 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) from the adoption of IFRS 16;
- Share based compensation of $0.2 million (2019 -$nil) from issuance of options.

Total other expenses for the nine months ended September 30, 2020 were $4.2 million versus $1.2 million in 2019. The increase in the nine months ended over the prior year relates primarily to the following:

- realized loss on marketable securities of $0.4 million (2019 – gain of $0.7 million);
- impairment loss on intangible assets of $0.5 million (2019 - $nil)
- interest expenses of $0.8 million (2019 - $0.5 million) and accretion expense of $1.6 million (2019 - $nil) from the convertible debentures issued in 2019;
- interest expense (accretion) on leases of $1.3 million (2019 - $nil) offset by finance income of $0.9 million (2019 - $nil) and a gain on sublease arrangements of $0.2 million (2019 - $nil) from the adoption of IFRS 16;
- share based compensation of $0.5 million (2019 -$0.06 million) from issuance of options.

Net loss and comprehensive loss

For the three months ended September 30, 2020, the Company reported a net loss and comprehensive loss of $1.0 million (2019 - $2.5 million).

For the nine months ended September 30, 2020, the Company reported a net loss and comprehensive loss of $4.2 million (2019 - $7.3 million).

As discussed above, the decrease in net loss and comprehensive loss in the current period was primarily the result of increased revenue and decreased general and administrative costs.

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 September 30, 2020 were $31.0 million versus $20.5 million in the prior quarter and $9.0 million in the comparable period in the prior year;
- *System-Wide Retail Sales*: system-wide retail sales in the nine months ended September 30, 2020 were $68.7 million versus $15.5 million in the comparable period in the prior year;
- *Revenue*: revenue in the three months ended September 30, 2020 was up $4.9 million from the comparable period in the prior year;
- *Revenue*: revenue in the nine months ended September 30, 2020 was up $13.0 million from the comparable period in the prior year.
- Adjusted EBITDA: adjusted EBITDA in the three months ended September 30, 2020 was a positive $1.3 million versus a negative $0.9 million for the comparable period in the prior year, which is an improvement of $2.2 million.
- Adjusted EBITDA: adjusted EBITDA in the nine months ended September 30, 2020 was a positive $1.7 million versus a negative $5.6 million for the comparable period in the prior year, which is an improvement of $7.3 million.

Summary of Quarterly Results

The following table sets out certain selected financial information for the eight most recently completed quarters. The historical quarterly information for the quarters in 2019 and 2018 has been restated as a result of the discontinued operations in 2019.

					Restated for discontinued operations			
Three months ended	30-Sep-20	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19	31-Dec-18
Revenue - Continuing operations	$ 8,092,147	$ 5,422,050	$ 4,133,752	$ 3,805,074	$ 3,217,186	$ 802,743	$ 439,783	$ 224,065
Revenue - Discontinued operations	$ -	$ -	$ -	$ 1,656,137	$ 924,972	$ 973,138	$ 813,312	$ 1,787,394
Net loss - Continuing operations	$ (1,009,210)	$ (1,229,588)	$ (1,944,167)	$ (4,056,009)	$ (2,321,886)	$ (2,483,193)	$ (1,803,323)	$ (3,362,735)
Net loss - Discontinued operations	$ -	$ -	$ -	$ (164,328)	$ (168,437)	$ (326,420)	$ (201,572)	$ (4,098,934)
Net and comprehensive loss	$ (1,009,210)	$ (1,229,588)	$ (1,944,167)	$ (4,220,337)	$ (2,490,323)	$ (2,809,613)	$ (2,004,895)	$ (7,461,669)
Basic loss per share	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.05)
Diluted loss per share	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.05)

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 the following:

- the increase in number of corporate and franchise retail cannabis stores which started from zero in Q4 of 2018 and has since increased to 58 by the end of Q3 2020;
- lower loss in quarters ended September 30, 2020 and June 30, 2020, due to increasing revenue from the increasing number of Spirit Leaf stores;
- lower loss in quarter ended March 31, 2020, due to higher revenue from the increasing number of Spirit Leaf stores, and lower expenses due to no longer having the Watch It! operations, which were discontinued in 2019;
- increased loss in the quarter ended December 31, 2019 due to significant expenses incurred from share-based compensation, accretion of right of use assets, financial guarantee liability expense, convertible debenture accretion, and interest expense (accretion) on leases;

- increased salaries and wages through the quarters as the Company grew and commercialized the operations of its Spiritleaf corporate retail cannabis stores and supported 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 in the quarter ended December 31, 2018, relating to Watch It!;
- swings in unrealized losses or gains on marketable securities that were acquired pursuant to its transactions with strategic partners;
- share-based compensation expenses for stock options and warrants that were issued through the various quarters to various directors, officers, consultants, and service providers and pursuant to transactions with strategic partners; and
- expenses incurred in connection with the prospectus offering of convertible debentures in May 2019, including associated 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 nine months ended September 30,	2020	2019
Cash provided by (used in) the following activities:		
Operating activities before working capital changes	$ 238,413	$ (6,218,509)
Changes in non-cash working capital	220,469	2,781,079
Operating activities	458,882	(3,437,430)
Financing activities	2,862,533	12,259,763
Investing activities	(817,900)	(7,104,688)
Increase in cash	2,503,515	1,717,645
Cash and cash equivalents, beginning of period	2,026,054	2,175,588
Cash and cash equivalents, end of period	$ 4,529,569	$ 3,893,233

Operating Activities

For the nine months ended September 30, 2020, cash flows provided by operating activities were $0.5 million (2019 - cash used of $3.4 million). The increase in cash provided from operations is primarily due to increased revenue associated with the operations of Spirit Leaf corporate stores and royalties from franchise stores, as well as reduced general and administration costs.

For the nine months ended September 30, 2020, operating activities were affected by a net decrease in non-cash working capital balances of $0.2 million (2019 –$2.8 million) mainly as a result of the following items:

- a decrease in short-term deposits of $1.2 million (2019 - $1.2 million) due to being transferred to the cash account for operations;
- an increase in accounts receivables of $0.7 million (2019 - $0.9 million), due to increased revenue;
- an increase in prepaid expenses and deposits of $0.6 million (2019 – $0.04 million), due to increased operations;
- a decrease in convertible debenture interest payable of $0.4 million (2019 – $nil), due to an interest payment being made in the prior quarter on the debentures issued in 2019.
- an increase in the current portion of lease liabilities of $0.4 million (2019 - $1.7 million), as additional leases were entered into.

Financing Activities

For the nine months ended September 30, 2020, cash provided by financing activities was $2.9 million (2019 - $12.3 million) primarily due to issuance of share capital of $3.0 million (2019 - $4.0 million) in the period. The Company also received $0.6 million (2019 - $nil) from repayments of loans to franchise partners. The Company also expended $0.8 million (2019 - $1.1 million) of cash for lease payments. In 2019, the Company received a $10 million through the issuance of convertible debentures.

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. During the period ended, the Company applied for and received a total of $120,000 in such loans through three 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.

Investing Activities

For the nine months ended September 30, 2020, total cash used in investing activities was $0.8 million (2019 –$7.1 million). The Company acquired $1.2 million (net of dispositions) of property and equipment (2019 - $1.9 million). The Company disposed of $0.3 million of Tilray shares (2019 – acquisition of $1.5 million), which were initially acquired as part of a private placement into the Company by Tilray. The Company disposed of $0.1 million of store permits for the Canmore store which it closed due to COVID-19 versus acquiring $2.4 million of store permits in 2019. As well, in 2019, the Company expended an additional $1.3 million for franchise inducements.

Capital Resources and Liquidity

The Financial Statements for the three and nine months ended September 30, 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 September 30, 2020 had an accumulated deficit of $28.4 million (December 31, 2019 - $24.2 million). The Company is in the growth 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 September 30, 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 September 30, 2020 and December 31, 2019:

As at,	30-Sep-20	31-Dec-19
Total Current Assets	$ 9,746,955	$ 7,200,673
Total Non-Current Assets	15,975,223	15,549,035
Total Assets	25,722,178	22,749,708
Total Current Liabilities	4,327,308	4,087,646
Total Non-Current Liabilities	20,325,735	16,941,549
Total Liabilities	24,653,043	21,029,195
Total Shareholders' Equity of Parent	1,419,020	2,052,132
Non-Controlling Interest	(349,885)	(331,619)
Total Shareholders' Equity	1,069,135	1,720,513
Total Liabilities and Equity	$ 25,722,178	$ 22,749,708

As at September 30, 2020, the Company had total assets of $25.7 million (December 31, 2019 - $22.7 million), an increase of $3.0 million. The increase in total assets resulted primarily from the increase in accounts receivable, prepaid expenditures, net investment in subleases, and property and equipment.

As at September 30, 2020, the Company had total liabilities of $24.7 million (December 31, 2019 - $21.0 million), an increase of $3.6 million. The increase in total liabilities resulted from increased accounts payable, lease liabilities, CEBA loans, and adjustment to fair market value of the convertible debentures.

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 seven retail store leases during the period ended September 30, 2020 but the commencement date of these did not begin until after the quarter end, and as such these retail stores were not available for use during the period; therefore, they do not form a part of the leases disclosed in Note 7 of the Financial Statements.

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

	September 30, 2020
2020	$ 14,867
2021	$ 465,966
2022	$ 578,561
2023	$ 586,280
Thereafter	$ 4,190,711

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.

Nine months ended September 30,		2020		2019
Short-term benefits	$	321,718	$	235,210
Long-term benefits (*)		15,293		-
	$	337,011	$	235,210

(*) 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 nine months ended September 30, 2020, the Company paid $89,533 (September 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.

As at September 30, 2020, there was $6,341 (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 September 30, 2020, the Company had 235,197,220 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, November 13, 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	235,332,220			235,332,220
12% Senior Secured Convertible Debentures	$ 10,000,000	June 30, 2022	$0.25	40,000,000
Stock options	21,496,250	February 28, 2023 to September 14, 2025	$0.10 to $0.20	21,496,250
Agent's options	2,292,800	November 24, 2020	$0.25	2,292,800
Service warrants	1,450,000	December 10, 2020 to April 3, 2023	$0.10 to $0.30	1,450,000
Debenture warrants	20,000,000	November 24, 2020	$0.25	20,000,000
Fully diluted				320,571,270

Recently Adopted Accounting Pronouncements

During the period ended September 30, 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 and the lower of cost and net realizable value; in estimating net realizable value, the Company makes estimates related to obsolescence, future selling prices, seasonality, customer behavior, and fluctuations in inventory levels.

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

Determining CGUs
For the purpose of assessing impairment of non-financial assets, the Company must determine its cash-generating units ("**CGUs**"). Assets are grouped into CGUs at the lowest level of separately identified cash inflows. The determination of a CGU is based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Management has determined that each corporate store in Spirit Leaf 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 September 30, 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 convertible debenture approximates its fair value as it has 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.

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 period ended September 30, 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 $1.6 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 September 30, 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.

Below is a breakdown of the aged receivable balance:

Accounts receivable	September 30, 2020	December 31, 2019
Current	$ 712,077	$ 342,882
31 – 60 days	60,185	2,570
61 – 90 days	156,340	9,532
Greater than 90 days	709,930	620,965
Accounts receivable	$ 1,638,532	$ 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 and are accordingly held in a segregated bank account.

The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the year.

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

	Maturity			
As at September 30, 2020	Within 1 year	1-5 years	Greater than 5 years	Total
Accounts payables and accrued liabilities	$ 942,712	$ -	$ -	$ 942,712
Convertible debentures interest payable	306,667	-	-	306,667
Payable to non-controlling interest	313,523	-	-	313,523
Refundable franchise fee deposits	116,250	354,000	-	470,250
Lease liabilities (undiscounted cash flows)	2,840,365	11,859,398	5,248,634	19,948,397
Financial guarantee liability	-	380,054	-	380,054
Convertible debenture	-	10,000,000	-	10,000,000
	$ 4,519,517	$ 22,593,452	$ 5,248,634	$ 32,361,603
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
	$ 4,182,291	$ 18,902,540	$ 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 $7,143 change in equity. In addition, the Company has foreign currency exposure on its investments 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

The Company faces intense competition from numerous independent retail cannabis stores, retail chains, and other franchise retail cannabis companies, some of which 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 also 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 positive operating cash flow for the financial period ended. However, 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 long-term 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 in this MD&A may constitute forward-looking information under applicable securities laws. Such forward-looking information is used in this MD&A for the purpose of providing information about management's current expectations and plans relating to the future development of Inner Spirit's business. All statements and information other than statements of historical fact or historical information may be forward-looking information. Readers are cautioned that reliance on such forward-looking information may not be appropriate for other purposes, such as making investment decisions. Forward-looking information typically contains statements with words such as "expect", "aims", "intend", "estimate", "target", "will", "anticipated", "possible", "potential" or similar words, including negatives thereof, suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to, statements or information with respect to: the Company's strategies and objectives, both generally and in respect of its existing business and planned businesses; the planned opening of wholly owned corporate Spiritleaf retail cannabis stores in Ontario, including expected store openings in 2021; the Company's intentions with respect to the creation and sale of house brand cannabis products; the Company's planned retail operations across Canada as of the date of this MD&A; the anticipated openings of Spiritleaf retail cannabis stores in Saskatchewan; Spiritleaf retail cannabis stores being prepared for opening in Newfoundland and Labrador in late 2020 and 2021; the Company's plans for additional Spiritleaf retail cannabis stores in in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Newfoundland and Labrador; the Company's expectation to not pay current taxes into the foreseeable future; 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; and certain other statements herein with respect to other expectations, beliefs, plans, objectives, assumptions and intentions, or statements about future events or performance.

The forward-looking information is based on a number of factors, expectations and assumptions which have been used to develop such information, and which may prove to be incorrect. Such material factors, expectations and assumptions include, but are not limited to: the ability of the Company to successfully implement its strategic plans and initiatives and whether such strategic plans and initiatives will yield the expected benefits; the receipt by the Company and its franchise partners of necessary licences from regulatory authorities, and the timing thereof; applicable tax laws; the sufficiency of budgeted capital expenditures in carrying out planned activities; assumptions of costs associated with business plans; consistency of laws and regulation relating to the retail cannabis industry; the timely receipt of any required regulatory approvals for the business plans of Inner Spirit; the ability of Inner Spirit to obtain qualified staff and necessary products in a timely and cost efficient manner; the general stability of the economic and political environment in which Inner Spirit operates; and the ability of Inner Spirit to obtain financing on acceptable terms when and if needed. Although Inner Spirit believes that the factors, expectations and assumptions on which the forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because Inner Spirit can give no assurances that they will prove to be correct.

Since forward-looking information addresses future events and conditions, by its very nature it involves inherent known and unknown risks and uncertainties which are beyond the control of Inner Spirit. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These factors and risks include, without limitation: the risk that the Company and its franchisees do not receive the necessary retail cannabis licences or that they are not able to open additional retail cannabis stores as anticipated or at all; the ability of management to execute its business strategy, objectives and plans; the availability of capital to fund the build-out and opening of corporate and franchised retail cannabis stores; the impact of general economic conditions and the COVID-19 pandemic in Canada; changes in industry conditions; changes in laws and regulations and changes in how they are interpreted and enforced; increased competition; the lack of availability of qualified personnel or management; 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; and the ability to capitalize on changes to the marketplace. Readers are cautioned that the foregoing list of factors and risks is not exhaustive. Inner Spirit's actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits that Inner Spirit will derive therefrom.

The forward-looking information included in this MD&A is made as of the date hereof and the Company does not undertake an obligation to publicly update such forward-looking information to reflect new information, subsequent events or otherwise, except as required by applicable law.

Additional Information

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