Inner Spirit Holdings Ltd.

Management's Discussion and Analysis

For the year ended December 31, 2020

(Expressed in Canadian Dollars)

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Introduction

This following Management’s Discussion and Analysis (this "**MD&A**") of the financial results of Inner Spirit Holdings Ltd. ("**Inner Spirit**" or the "**Company**") should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2020 and 2019 (the "**Financial Statements**"). The Financial Statements, including the comparative figures, were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. Unless otherwise noted, all dollar amounts are in Canadian dollars. The information in this MD&A is current as of March 25, 2021, unless otherwise noted.

Additional information regarding the Company, including the Financial Statements, news releases, the Company's annual information form for the financial year ended December 31, 2019 dated February 12, 2021 (the "**AIF**"), and other disclosure items of the Company, is available under the Company's profile on SEDAR at www.sedar.com.

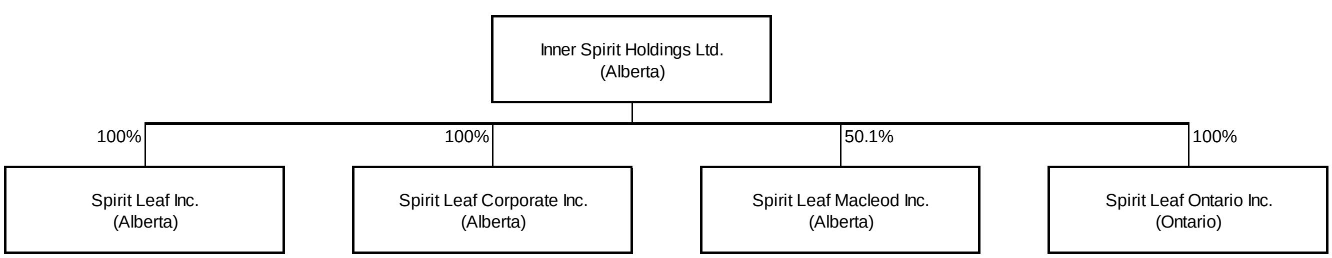
Corporate Overview

Inner Spirit was incorporated under the *Business Corporations Act* (Alberta) (the "**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 and subsequently the Company's common shares ("**Common Shares**") started trading on the Canadian Securities Exchange on August 1, 2018 under the symbol "ISH". The Company's head office is located at Suite 102, 5740 - 2nd Street S.W., Calgary, Alberta, T2H 1Y6, while its registered office is located at 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. ("**Spirit Leaf**"), which is wholly-owned by the Company; (ii) Spirit Leaf Macleod Inc. ("**Spirit Leaf Macleod**"), of which the Company owns 50.1% of the outstanding voting shares; (iii) Spirit Leaf Corporate Inc. ("**Spirit Leaf Corporate**"), which is wholly-owned by the Company, and (iv) Spirit Leaf Ontario Inc. ("**Spirit Leaf Ontario**"), which is wholly-owned by the Company. The subsidiaries were incorporated under the laws of the Province of Alberta (other than Spirit Leaf Ontario which was incorporated under the laws of the Province of Ontario), are headquartered in Calgary, Alberta, and are extra-provincially registered in the various jurisdictions in which they operate.

The Company 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 in the Financial Statements and this MD&A as discontinued operations.

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



Description of the Business

The Company is an Alberta-based, retail cannabis company focused on the retail sale of cannabis products and cannabis accessories in Canadian jurisdictions where the private retail distribution of cannabis is legal. The Company is executing on its vision of becoming a premier retailer and the trusted destination for cannabis in Canada. Since the legalization of recreational cannabis on October 17, 2018, the Company has built a strategic portfolio of 81 corporate and franchise Spiritleaf retail cannabis stores in strategic locations in five provinces across Canada. Management continues to focus on growing the Company's business organically while executing on strategic opportunities within the cannabis sector, including accretive strategic acquisitions, partnerships and/or other ventures. With a strong balance sheet, extensive franchise and relationship network and experienced management team, the Company is well positioned to withstand short-term challenges and capitalize on any opportunities that may arise.

Inner Spirit has a world class corporate culture driven by local entrepreneurs and cannabis enthusiasts that are invested and cultivate deep connections in their communities. With an extensive sales and marketing plan, and a customer-focused approach, the Company plans to continue to action its strategies through a purpose-drive path while providing a seamless customer experience whether the guest is shopping online from a mobile device, a laptop or in a brick-and-mortar store.

The Company's business strategy is to:

- Build an iconic Canadian retail brand and a network of retail cannabis stores across Canadian jurisdictions where the private distribution of cannabis is legal.
- Sell select premium cannabis brands together with proprietary accessories and licensed brands (in Canadian jurisdictions where doing so is legal) through the Spiritleaf retail store network and related distribution channels.
- Engage local communities to educate and share knowledge with consumers on the cannabis experience.
- Utilize a low capital expenditure franchise model to accelerate expansion, maximize return on investment, and achieve scalability and speed to market.
- Enable local entrepreneurs to enter the cannabis retail business and apply their capital to grow the Spiritleaf network.

For additional information regarding the business of the Company, please refer to the "*General Development of the Business*" and "*Description of the Business*" sections in the AIF.

Retail Cannabis Operations

The Company's main operations consist of:

- **Corporate Retail Cannabis Operations:** The Company, through Spirit Leaf Corporate and Spirit Leaf Ontario, opens and operates wholly owned corporate Spiritleaf retail cannabis stores in strategic locations across Canada in such jurisdictions where the private retail distribution of cannabis is legal and where it is not prohibited from opening retail cannabis stores. The Company, through Spirit Leaf Macleod, also operates a Spiritleaf retail cannabis store in Calgary, Alberta (the "**MOU Store**"). The Company intends to continue to seek and secure real-estate locations for potential wholly owned corporate Spiritleaf retail cannabis stores in such jurisdictions of Canada where the private retail distribution of cannabis is legal and where it is not prohibited from opening retail cannabis stores.
- **Franchise Retail Cannabis Operations:** The Company, through Spirit Leaf, opens and supports a chain of franchised Spiritleaf retail cannabis stores in such jurisdictions of Canada where the private retail distribution of cannabis is legal. Such franchise operations consist 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 collects initial franchise fees, royalties and also generates revenue through the sale of millwork, supplies and Spiritleaf accessories to Spiritleaf franchise retail cannabis stores.

The Company started 2020 with 10 corporate Spiritleaf retail cannabis stores (including the MOU Store) open and operating across Alberta and ended the year with 13 corporate Spiritleaf retail cannabis stores (including the MOU Store) open and operating across Alberta and Ontario. Franchise partners of Spirit Leaf started 2020 with 32 franchise Spiritleaf retail cannabis stores open and operating across British Columbia, Alberta, Saskatchewan and Ontario and ended the year with 55 franchise Spiritleaf retail cannabis stores open and operating across British Columbia, Alberta, Saskatchewan, Ontario and Newfoundland and Labrador.

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

Province	Corporate Stores Open(1)	Franchise Stores Open(1)	Corporate Stores Pending(2)	Franchise Stores Pending(2)	Total
British Columbia	Nil	6	Nil	Nil	**6**
Alberta	12(3)	33	2	6	**53**
Saskatchewan	1	1	2	Nil	**4**
Manitoba	Nil	Nil	2	2	**4**
Ontario	5	19	2	18	**44**
Newfoundland and Labrador	Nil	4	Nil	1	**5**
Total	**18**	**63**	**8**	**27**	**116**

Notes:
1. The number of stores operating during the COVID-19 pandemic may vary as the Company and its franchisees continue to respond to the applicable legal requirements and guidelines from federal, provincial and municipal governments, and public health authorities.
2. Premises currently held for Spiritleaf cannabis retail stores at various stages of licensing approvals and development. There is no assurance that these locations will obtain final licensing approvals or that they will open, and if they do, what the timing thereof will be.
3. Includes the MOU Store.

Market Intelligence

In addition to its corporate and franchise retail cannabis operations, the Company has an arrangement with Headset, Inc. and ACNielsen Company of Canada (together, "**Headset-Nielsen**"), both leading data and analytics service providers to the cannabis industry, to provide point-of-sale data, market intelligence and consumer buying trends that enable a real-time view of sales and store inventory, enhanced purchasing decisions and data collaboration with suppliers. By capturing and analyzing user behaviour data, the Company can more quickly adjust its operations to respond to changing consumer sentiments and demands. This allows Spiritleaf retail cannabis stores to inventory the products that customers want and to optimize inventory turns. The Company, through the arrangement with Headset-Nielsen, also licenses certain of its data analytics to allow third parties to better understand customer preferences and behavior and market dynamics. This provides the Company with opportunities for additional high-margin revenue streams.

Spiritleaf Collective

The Company's member benefits program, Spiritleaf Collective, launched in December of 2019 and has since grown to over 230,000 members. The program is a direct way that the Company can contact registered guests by text message marketing. Spiritleaf Collective members are offered a point every time they visit a Spiritleaf retail cannabis store and points may be redeemed for Spiritleaf branded items shipped directly to their door.

Competitive Landscape

The private retail cannabis industry in Canada is very competitive, and the Company anticipates increased levels of competition in the industry as new participants enter the market and established retails consolidate. The principal aspects of competition include, among other things, obtaining retail cannabis store licences and regulatory approvals, the availability of cannabis products and cannabis accessories, securing optimal real estate locations and the ability to attract and retain key personnel and customers. The Company faces competition from vertically integrated cannabis companies, existing retailers, government retailers, and the illegal market. The recent consolidation of retail companies in the market is also anticipated to increase competition in the industry, as larger consolidated companies generally have better access to capital and other necessary resources. To remain competitive, the Company and its subsidiaries will require a continued high level of investment in marketing, sales and client support. The Company believes that its product knowledge, experience operating retail outlets under the Watch It! and Spiritleaf brands, and strategic partnerships with larger, established companies in the cannabis, has and will continue to be a competitive advantage in navigating the highly regulated marketplace.

COVID-19

The current COVID-19 pandemic has created an unprecedented operating environment for many businesses, including client-facing retail business like the Company. Cannabis retail has been deemed, and currently remains, an essential service and an allowable business service by provincial governments in Canada. As at the date hereof, substantially all of the corporate and franchise Spiritleaf retail cannabis stores remain open, subject to certain operating adjustments such as reduced operating hours or operating through curbside pickup or delivery, and the Company's operations have not been materially disrupted on a macro level, although there are certain Spiritleaf retail cannabis stores that have experienced reduced sales performance. Notwithstanding the above, there can be no assurance that cannabis retail will remain an essential service and an allowable business service in provinces where corporate and franchise Spiritleaf retail cannabis stores operate. Any governmental changes that require the Company or its franchisees to temporarily suspend their operations would negatively impact the Company's business, financial condition and results of operations, and could result in a Material Adverse Effect (as defined herein). See "*Risk Factors – COVID-19 Pandemic*".

The Company is closely monitoring the evolution of the COVID-19 pandemic, with a focus on the jurisdictions in which the Company operates, and will continue to follow the direction of federal, provincial and municipal governments, and public health authorities.

Operational Highlights

Operational highlights during and subsequent to the financial year ended December 31, 2020 include:

- Positioned as Canada's leading retail cannabis brand with 68 corporate and franchise locations across the country as at December 31, 2020, and 81 as at the date of this MD&A.
- 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 retail 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.
- Superb 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.
- The Spiritleaf Collective members' program currently has over 230,000 members enrolled.
- 13 additional stores have opened subsequent to December 31, 2020, including 8 franchise stores
- Subsequent to December 31, 2020, 4 Franchise Agreements were entered into while 1 was terminated.
- Subsequent to year end, the Company announced a bought deal offering (the "**Offering**") of units ("**Units**"). Under the terms of the Offering, a syndicate of underwriters (the "**Underwriters**") co-led by Echelon Wealth Partners Inc. and Cantor Fitzgerald Canada Corporation, and including Acumen Capital Partners, have agreed to purchase, on a bought deal basis, 35,720,000 Units at a price of $0.28 per Unit (the "**Offering Price**") for aggregate gross proceeds to the Company of $10,001,600. Each Unit will consist of one Common Share and one-half of a common share purchase warrant (each full warrant, a "**Unit Warrant**"). Each Unit Warrant will entitle the holder thereof to purchase one Common Share at an exercise price of $0.34, for a period of 36 months following the closing of the Offering. The Company has also granted to the Underwriters an over-allotment option to purchase up to an additional 15% of the Units at the Offering Price, exercisable in whole or in part, at any time on or prior to the date that is 30 days following the closing of the Offering. If this option is fully exercised in full, approximately $1,500,240 in additional proceeds will be raised pursuant to the Offering and the aggregate proceeds of the Offering will be approximately $11,501,840.

2020 Financial Year and Q4 2020 Highlights

- Total revenue for the year ended December 31, 2020 increased 244% to $26.8 million, versus $7.8 million in 2019.
- System-wide retail sales[(1)] for the year ended December 31, 2020 increased 258% to $105.3 million, versus $29.4 million in 2019. System-wide retail sales represent the aggregate revenue earned by franchise Spiritleaf retail cannabis stores and Company owned Spiritleaf retail cannabis stores, and do not solely represent the Company's revenue. The Company only receives royalties and advertising fees in respect of franchise Spiritleaf retail cannabis store revenue forming part of the system-wide retail sales.

- Total revenue for the three months ended December 31, 2020 increased 174% to $9.2 million versus $3.3 million in 2019.
- System-wide retail sales[(1)] for the three months ended December 31, 2020 increased 164% to $36.6 million, versus $13.86 million in the fourth quarter of 2019. System-wide retail sales represent the aggregate revenue earned by franchise Spiritleaf retail cannabis stores and Company owned Spiritleaf retail cannabis stores, and do not solely represent the Company's revenue. The Company only receives royalties and advertising fees in respect of franchise Spiritleaf retail cannabis store revenue forming part of the system-wide retail sales
- Operating loss for the year ended December 31, 2020 was $0.1 million versus an $6.4 million in 2019.
- Net and comprehensive loss for the year ended December 31, 2020 was $3.1 million, or $0.01 per share, compared with $11.3 million, or $0.06 per share, in 2019.
- Adjusted EBITDA[(1)] for the year ended December 31, 2020 increased to a positive $3.4 million from a negative $4.8 million in 2019.
- Net income for the three months ended December 31, 2020 was $1.1 million compared to a net loss of $4.0 million in 2019.

(1) See Non-IFRS Financial Measures section below for the definition and reconciliation of the non-IFRS financial measure.

Non-IFRS Financial Measures

This MD&A makes reference to "system-wide retail sales" and "Adjusted EBITDA", 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. System-wide retail sales represent the aggregate revenue earned by franchise Spiritleaf retail cannabis stores and Company owned Spiritleaf retail cannabis stores, and do not solely represent the Company's revenue. The Company only receives royalties and advertising fees in respect of the franchise Spiritleaf retail cannabis store revenue forming part of the system-wide retail sales. 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.

The following table reconciles the Company's system-wide retail sales to revenue, being the most directly comparable measure calculated in accordance with IFRS.

	3 Months ended December 31,		Years ended December 31,	
	2020	2019 (restated)	2020	2019 (restated)
System-Wide Retail Sales	$ 36,628,028	$ 13,857,808	$ 105,286,746	$ 29,397,606
Less:				
Franchise store sales	(30,140,269)	(11,855,193)	(86,915,232)	(26,226,831)
Add back:				
Royalties	1,393,241	604,056	4,207,269	1,328,301
Advertising	306,368	120,811	885,100	265,662
Millwork	741,677	368,312	1,931,135	1,930,884
Franchise fee	172,500	148,850	510,000	565,100
Supply and other	49,555	(67,614)	894,030	534,310
Revenue	$ 9,151,100	$ 3,177,030	$ 26,799,048	$ 7,795,032

Adjusted EBITDA

Management defines "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, gain (loss) on lease derecognition, gain (loss) on sublease arrangement, financial guarantee liability expense, finance income, interest expense (accretion) - leases, impairment loss on intangible assets, 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.

Years ended December 31,		2020		2019 (restated)
Net loss and comprehensive loss	$	(3,095,418)	$	(11,295,424)
Add back:				
Right of use asset depreciation		712,138		809,184
Depreciation and amortization		1,555,972		825,502
Impairment loss on intangible assets		508,622		-
Share-based compensation		684,517		687,067
Unrealized loss on marketable securities		-		1,170,789
Realized loss (gain) on marketable securities		361,492		(73,634)
Unrealized loss on investment		-		78,276
Net gain on leases		(493,470)		(3,842)
Financial guarantee liability expense (income)		(49,534)		305,921
Finance income		(1,257,073)		(234,930)
Interest expense (accretion) - leases		2,017,923		1,190,988
Interest expense		1,103,217		862,190
Issuance cost expense		-		61,182
Revaluation gain (loss) on derivative		50,218		(290,926)
Convertible debenture accretion		1,260,916		1,105,892
Adjusted EBITDA	$	3,359,520	$	(4,801,765)

<u>Selected Annual Information</u>

The following table provides a brief summary of the Company's financial information for each of the three most recently completed financial years. For more detailed information, please refer to the financial statements of the Company for the years ended December 31, 2020, 2019 and 2018. The 2019 financial numbers below have been restated as a result of a prior period error, as outlined in Note 26 of the Financial Statements. The 2018 financial numbers below have been restated as a result of the discontinued operations that occurred in 2019 (See Note 25 of the Financial Statements).

Years ended December 31,	2020	2019 (restated)	2018
Revenue - Continuing operations	$ 26,799,048	$ 7,795,032	$ 624,216
Revenue - Discontinued operations	-	4,367,559	5,167,169
Operating loss - Continuing operations	(101,729)	(6,447,512)	(4,074,788)
Net loss - Continuing operations	(3,095,418)	(10,619,418)	(7,005,308)
Net loss - Discontinued operations	-	(676,006)	(4,689,665)
Net loss and comprehensive loss	(3,095,418)	(11,295,424)	(11,694,973)
Loss per share - Continuing operations	($0.01)	($0.05)	($0.05)
Loss per share - Discontinued operations	$0.00	($0.00)	($0.03)
Basic and diluted loss per share	($0.01)	($0.06)	($0.09)
Total assets	$ 31,742,423	$ 22,749,708	$ 11,449,669
Total non-current liabilities	$ 24,091,616	$ 16,941,549	$ 2,790,784

The key factors affecting the results of the Company for the year ended December 31, 2020 were:

- **Retail Revenue**: Retail revenue increased by $15.2 million or 479% for the year ended December 31, 2020 as compared to 2019. The growth in retail revenue was driven by the increase in the number of corporate Spiritleaf retail cannabis stores from the beginning of the 2019 financial year to the end of the 2020 financial year, and the increasing retail revenue generated by such stores.
- **Royalties Revenue**: Royalties revenue increased by $2.9 million or 217% for the year ended December 31, 2020 as compared to 2019. The growth in royalties revenue was driven by the increase in the number of franchise Spiritleaf retail cannabis stores from the beginning of the 2019 financial year to the end of the 2020 financial year, and the increasing royalties generated by such stores.
- **Salaries, Wages and Benefits Expenses**: Salaries, wages and benefits expenses increased by $2.4 million or 85% for the year ended December 31, 2020 as compared to 2019. The growth in such expenses was driven by the increase in the number of corporate Spiritleaf retail cannabis stores from the beginning of the 2019 financial year to the end of the 2020 financial year and the staffing expenses associated with such stores.
- **General and Administrative Expenses**: General and administrative expenses decreased by $0.9 million or 26% for the year ended December 31, 2020 as compared to 2019. The decrease in such expenses was driven by effective cost cutting measures put in place by the Company as well as lower professional fees being incurred during 2020. The Company incurred significant professional fees in 2019 as a result of the convertible debenture offering completed in May and June of 2019, which was not repeated in 2020.

The key factors affecting the results of the Company for the year ended December 31, 2019 were:

- **Retail Revenue**: Retail revenue increased by $3.1 million for the year ended December 31, 2019 as compared to 2018. The growth in retail revenue was driven by the increase in the number of corporate Spiritleaf retail cannabis stores during the 2019 financial year, and the increasing retail revenue generated by such stores.
- **Royalties Revenue**: Royalties revenue increased by $1.3 million for the year ended December 31, 2019 as compared to 2018. The growth in royalties revenue was driven by the increase in the number of franchise Spiritleaf retail cannabis stores from the beginning of the 2018 financial year to the end of the 2019 financial year, and the increasing royalties generated by such stores.
- **Millwork Revenue**: Millwork revenue increased by $1.6 million or 413% for the year ended December 31, 2019 as compared to 2018. The growth in retail revenue was driven by the construction of franchise Spiritleaf retail cannabis stores from the beginning of the 2018 financial year to the end of the 2019 financial year. As franchise Spiritleaf retail cannabis stores were constructed millwork was purchased from the Company for such purpose.
- **Salaries, Wages and Benefits Expenses**: Salaries, wages and benefits expenses increased by $1.5 million or 122% for the year ended December 31, 2019 as compared to 2018. The growth in such expenses was driven by the increase in the number of corporate Spiritleaf retail cannabis stores in the 2019 financial year and the staffing expenses associated with such stores.
- **General and Administrative Expenses**: General and administrative expenses increased by $1.7 million or 90% for the year ended December 31, 2019 as compared to 2018. The increase in such expenses was driven by the Company's efforts to grow its business and operations.

2020 versus 2019

The significant increase in total assets and liabilities for the year ended December 31, 2020 as compared to 2019 is mainly the result of the following factors:

- Increase in current assets due to increased revenue and private placements in 2020;
- Increase in property and equipment due to increased number of corporate Spiritleaf retail cannabis store locations;
- Increase in net investment in subleases due to increase number of franchise Spiritleaf retail cannabis store locations;
- Increase in current liabilities due to increased accounts payable and current lease liabilities as operations and the number of Spiritleaf retail cannabis stores increased;
- Increase in long term lease liabilities due to increased number of Spiritleaf retail cannabis store locations; and
- Increase in convertible debenture due to accretion.

The increase in revenue for the year ended December 31, 2020 as compared to 2019 was a result of the increase in the number of corporate and franchise Spiritleaf retail locations during the 2020 financial year. The Company began 2019 with no open and operating corporate Spiritleaf retail cannabis stores and ended the year with 10 corporate Spiritleaf retail cannabis stores (including the MOU Store) open and operating across Alberta. Franchise partners of Spirit Leaf started 2019 with 4 franchise Spiritleaf retail cannabis stores open and operating across Alberta and ended the year with 32 franchise Spiritleaf retail cannabis stores open and operating across British Columbia, Alberta and Saskatchewan. As well, in April 2019, a licensed Spiritleaf retail cannabis store was opened in Kingston, Ontario by a third party.

The decrease in loss for the year ended December 31, 2020 as compared to 2019 is a result mainly of the significant increase in revenue from Spirit Leaf, offset by the following increase in expenses:

- Increase in salaries and wages due to additional employees at the growing number of corporate Spiritleaf retail cannabis stores;
- Increased depreciation and amortization due to increased assets at the growing number of corporate Spiritleaf retail cannabis stores;
- Increased interest expense and convertible debenture accretion as a result of the convertible debentures issued in May and June of 2019 being outstanding for the entire 2020 financial year;
- Impairment write-down on intangibles and realized loss on marketable securities; and
- Additional expenses in ramping up the Company's retail cannabis operations.

2019 versus 2018

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

- Completion of a $10 million convertible debenture financing in Q2 of 2019; and
- Adoption of IFRS 16 – Leases, which added $7.6 million to the assets in right to use assets and net investment in subleases, and which added $9.0 million to the lease liabilities.

The increase in revenue from continuing operations for the year ended December 31, 2019 as compared to 2018 was a result of the commencement of significant operations and revenue from the Company's retail cannabis operations after the legalization of recreational cannabis in Canada in October 2018.

The decrease in loss for the year ended December 31, 2019, is a result mainly of the significant increase in revenue from the Company's retail cannabis operations after the legalization of recreational cannabis, offset by the following increase in expenses:

- Increased interest expense from the $10 million of convertible debentures issued during the year;
- Changes to accounting policies from the adoption of IFRS 16, causing accretion of right to use assets;
- Additional expenses in ramping up the Company's retail cannabis operations;

- Significant professional fees, financing fees, and other costs were incurred for the convertible debenture financing;
- Significant lease carrying costs were incurred for potential locations for corporate and franchised retail cannabis stores; and
- Changes in the direction of the Company's business with a focus on its retail cannabis operations and the wind-up of Watch It!.

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 of the Company for the years ended December 31, 2020 and 2019.

Years ended December 31,		2020		2019 (restated)
System-Wide Retail Sales (1)	$	105,286,746	$	29,397,606
Revenue	$	26,799,048	$	7,795,032
Cost of sales		14,147,135		4,062,030
Gross profit		12,651,913		3,733,002
Operating expenses				
Salaries, wages, and benefits		5,193,824		2,806,244
Sales and marketing		842,259		658,217
General and administrative		2,605,259		3,506,190
Occupancy costs		651,051		888,110
Right of use asset depreciation		712,138		809,184
Depreciation and amortization		1,555,972		825,502
Impairment loss on intangible assets		508,622		-
Share-based compensation		684,517		687,067
Total operating expenses		12,753,642		10,180,514
Operating loss		(101,729)		(6,447,512)
Unrealized loss on marketable securities		-		1,170,789
Realized loss (gain) on marketable securities		361,492		(73,634)
Unrealized loss on investment		-		78,276
Net gain on leases		(493,470)		(3,842)
Financial guarantee liability expense (income)		(49,534)		305,921
Finance income		(1,257,073)		(234,930)
Interest expense (accretion) - leases		2,017,923		1,190,988
Interest expense		1,103,217		862,190
Issuance cost expense		-		61,182
Revaluation gain (loss) on derivative		50,218		(290,926)
Convertible debenture accretion		1,260,916		1,105,892
		2,993,689		4,171,906
Net loss from continuing operations	$	(3,095,418)	$	(10,619,418)
Net loss from discontinued operations		-		(676,006)
Net loss and comprehensive loss for period	$	(3,095,418)	$	(11,295,424)

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.

Revenue

Total revenue for the year ended December 31, 2020 was $26.8 million (2019 - $7.8 million), representing an increase of $19.0 million or 244% from the 2019 financial year. The growth in total revenue is primarily attributable to the following:

- Growth in retail revenue from corporate Spiritleaf retail cannabis stores as the number of open and operating Spiritleaf retail cannabis stores grew from the zero stores at beginning of the 2019 financial year to 13 stores (including the MOU Store) at the end of the 2020 financial year. Retail revenue increased from $3.2 million in the 2019 financial year to $18.4 million in the 2020 financial year; and
- Growth in royalties and advertising revenue from franchise Spiritleaf retail cannabis stores as the number of open and operating Spiritleaf retail cannabis stores grew from 4 stores at the beginning of the 2019 financial year to 55 stores at the end of the 2020 financial year. Royalties revenue and advertising revenue increase from an aggregate of $1.6 million in the 2019 financial year to $5.1 million in the 2020 financial year.

Prior to opening, Spiritleaf franchised retail cannabis stores purchase millwork (store fixtures) from the Company, which resulted in revenues of $1.9 million in 2020 and in 2019.

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. The fees earned were over $0.5 million in 2020 and in 2019.

Additionally, once a franchise Spiritleaf retail cannabis store is open and operating, it purchases supplies and Spiritleaf accessories from Spirit Leaf to sell to customers. These sales generated $0.9 million in revenue during the 2020 financial year versus $0.5 million during the 2019 financial year.

For the three months ended December 31, 2020, total revenue was $9.2 million (2019 - $3.3 million), representing an increase of $5.8 million or 174% from the fourth quarter of 2019.

Gross Profit

Gross profit for the year ended December 31, 2020 was $12.7 million (2019 - $3.7 million) or 47.2% (2019 – 47.9%) margin. Gross profit increased by $8.9 million, representing a 239% 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 year ended December 31, 2020 were $12.8 million (2019 - $10.2 million). For the year ended December 31, 2020 as compared to the 2019 financial year:

- General and administrative expenses decreased by $0.9 million or 26% as a result of lower administrative costs;
- Salaries, wages, and benefits expenses increased by $2.4 million or 85% primarily as a result of the increase in the number of corporate Spiritleaf retail cannabis stores from the beginning of the 2019 financial year to the end of the 2020 financial year and the staffing expenses associated with such stores and the Company's support centre; and
- Depreciation and amortization increased by $0.7 million as a result of an increase in depreciable assets as operations increased.
- Impairment on intangible assets increased by $0.5 million due to closing one of the Company's Canmore locations.

Operating Loss

The operating loss was $0.1 million for the year ended December 31, 2020 versus $6.4 million in 2019, as a result of the factors outlined above.

Other Expenses

Total other expenses for the year ended December 31, 2020 were $3.0 million versus $4.2 million in 2019. The decrease in expenses from the prior year relates primarily to the following:

- Realized loss on marketable securities of $0.4 million versus an unrealized loss of $1.2 million in 2019;
- Net gain on leases of $0.5 million versus $0.004 million in 2019;

- Interest expense (accretion) on leases of $2.0 million (2019 - $1.2 million), offset by finance income of $1.3 million (2019 - $0.2 million);
- Interest expenses of $1.1 million (2019 - $0.9 million) and accretion expense of $1.3 million (2019 - $1.1 million) from the convertible debentures issued in 2019; and

Net loss and comprehensive loss

For the year ended December 31, 2020, the Company reported a net loss and comprehensive loss of $3.1 million (2019 - $11.3 million).

For the three months ended December 31, 2020, the Company reported a net income and comprehensive income of $1.1 million (2019 – net loss of $4.0 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

Management of the Company evaluates the performance of the Company's business and operations by reviewing the following key performance metrics. Certain of these metrics are non-IFRS financial measures. See the "*Non-IFRS Financial Measures*" section for the definitions and reconciliations of such non-IFRS financial measures.

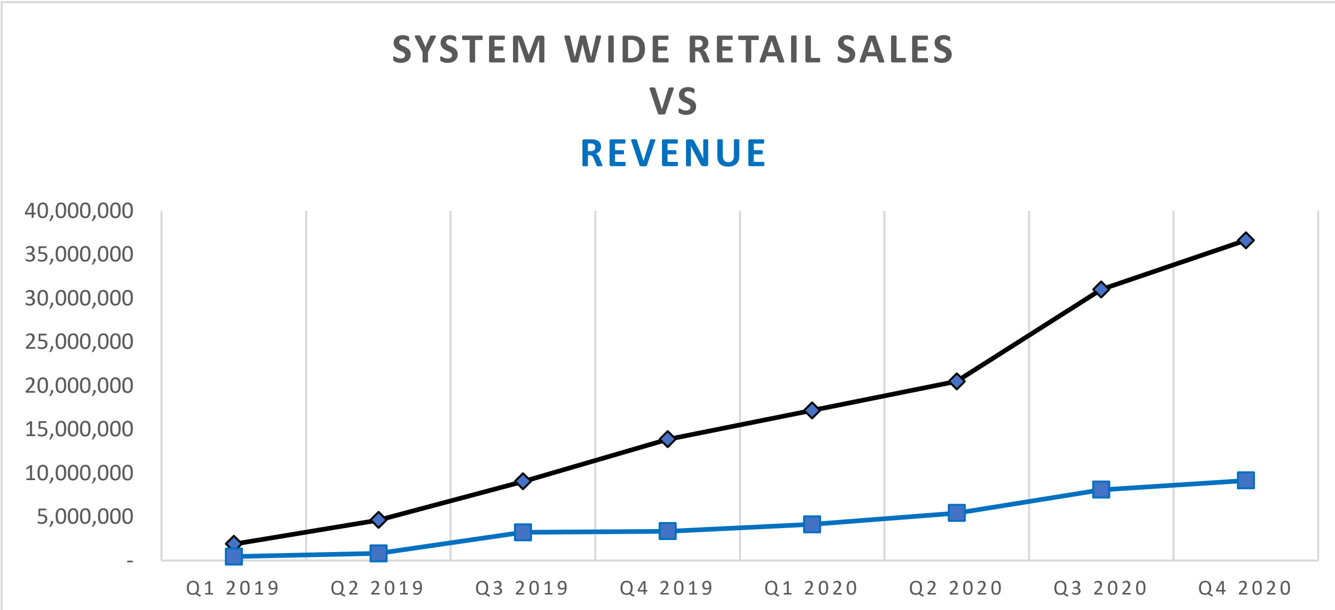
Revenue and System-Wide Retail Sales

Revenue for the year ended December 31, 2020 was $26.8 million, representing an increase of $19.0 million or 244% from the year ended December 31, 2019. Over the same period, system-wide retail sales increased from $29.4 million to $105.3 million. The increase in revenue and system-wide retail sales for the year ended December 31, 2020 versus 2019 was a result of the increase in the number of corporate and franchise Spiritleaf retail locations from the beginning of the 2019 financial year to the end of the 2020 financial year.

Revenue for the three months ended December 31, 2020 was $9.2 million, representing an increase of $5.8 million or 174% from the three months ended December 31, 2019. Over the same period, system-wide retail sales increased from $13.9 million to $36.6 million. The increase in revenue and system-wide retail sales for the three months ended December 31, 2020 versus 2019 was a result of the increase in the number of corporate and franchise Spiritleaf retail locations from the beginning of the fourth quarter of 2019 to the end of the 2020 financial year.

Management uses revenue and system-wide-retail sales to evaluate brand scale and market penetration and to assess the financial and operational performance of the Company and the strength of the Company's market position relative to its competitors.

The following chart illustrates the growth in quarterly revenue and system-wide retail sales over the two most recently completed financial years.



Readers should note that system-wide retail sales represent the aggregate revenue earned by franchise Spiritleaf retail cannabis stores and Company owned Spiritleaf retail cannabis stores, and do not solely represent the Company's revenue. The Company only receives royalties and advertising fees in respect of franchise Spiritleaf retail cannabis store revenue forming part of the system-wide retail sales.

Adjusted EBITDA

Adjusted EBITDA in the year ended December 31, 2020 was a positive $3.4 million versus a negative $4.8 million for the 2019 financial year, representing an increase of $8.2 million. The improved operating performance of the Company and the move to positive Adjusted EBITDA are a result of the Company generating larger revenues from and increasing number of corporate and franchise Spiritleaf retail cannabis stores while simultaneously reducing general and administrative costs.

Management uses Adjusted EBITDA to assess its operating performance prior to consideration of how its operations are financed, how its results are taxed, and how its results are impacted by non-cash charges and charges that are irregular in nature or not reflective of the Company's core operations.

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 has been restated as a result of the discontinued operations in 2019. See "*Selected Annual Information - Discontinued Operations - Watch It!*".

					Restated	Restated for discontinued operations		
Three months ended	31-Dec-20	30-Sep-20	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19
Revenue - Continuing operations	$ 9,151,099	$ 8,092,147	$ 5,422,050	$ 4,133,752	$ 3,335,320	$ 3,217,186	$ 802,743	$ 439,783
Revenue - Discontinued operations	$ -	$ -	$ -	$ -	$ 1,656,137	$ 924,972	$ 973,138	$ 813,312
Net income (loss) - Continuing operations	$ 1,087,547	$ (1,009,210)	$ (1,229,588)	$ (1,944,167)	$ (4,011,016)	$ (2,321,886)	$ (2,483,193)	$ (1,803,323)
Net loss - Discontinued operations	$ -	$ -	$ -	$ -	$ (164,328)	$ (168,437)	$ (326,420)	$ (201,572)
Net and comprehensive loss	$ 1,087,547	$ (1,009,210)	$ (1,229,588)	$ (1,944,167)	$ (3,990,593)	$ (2,490,323)	$ (2,809,613)	$ (2,004,895)
Basic loss per share	$ 0.00	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.01)
Diluted loss per share	$ 0.00	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.01)

The Company has incurred losses over the last eight quarters, except in the fourth quarter of 2019, as it implemented and executed its strategy of building an iconic Canadian retail brand and opening a chain of corporate and franchise Spiritleaf 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 Spiritleaf retail cannabis stores which started from zero at the beginning of the fourth quarter of 2018 and has since increased to 68 by the end of the fourth quarter of 2020;

- Net income for the quarter ended December 31, 2020 of $1.1 million due to increasing revenue from the increasing number of Spiritleaf retail cannabis stores, as well as due to year end audit adjustments;
- Lower loss in the second and third quarters of 2020 due to increasing revenue from the increasing number of Spiritleaf retail cannabis stores;
- Lower loss in the first quarter of 2020 due to higher revenue from the increasing number of Spiritleaf retail cannabis stores and lower expenses from no longer having the Watch It! operations, which were discontinued in 2019;
- Increased loss in the fourth quarter of 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;
- 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 and Capital Resources

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

The Company has incurred losses since incorporation, and as of December 31, 2020 had an accumulated deficit of $27.1 million (December 31, 2019 - $24.0 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. During the financial year ended December 31, 2020 the Company's operating activities provided positive cash flow, as compared to the financial year ended December 31, 2019 when the Company's operating activities used cash flows. See the "*Cash Flow Statement*" section below.

Liquidity

The Company believes it has sufficient liquidity to support continued operations and meet its short-term liabilities and commitments as they become due. Liquidity is primarily influenced by the operational performance of franchise 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. As at December 31, 2020, the Company had sufficient cash on hand to meet its short-term liabilities and commitments as they become due (see the "*Statement of Financial Position*" section below). In the longer term, the Company's ability to continue as a going concern is dependent upon its ability to continue generating positive cash flow and generate net income or raise additional capital and then continue generating positive cash flow and generate net income. If the Company requires additional capital, there can be no assurance that equity or debt financings will be available to it in the future on terms satisfactory to the Company or at all. 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.

Capital Resources

The Company does not currently have any commitments for capital expenditures; however, it has plans to build-out and open up to 14 additional corporate Spiritleaf retail cannabis stores in select provinces in Canada during the financial year ended December 31, 2021. The total planned capital expenditures for building out these stores will be approximately up to $5,700,000 before the end of the year.

In February 2021, the Company entered into an underwriting agreement in respect of the Offering for aggregate gross proceeds of $10 million. The Company anticipates using the proceeds from the Offering to fund the planned build-out of aforementioned corporate Spiritleaf retail cannabis stores as well as for strategic, general corporate and working capital purposes. However, in the event that the Offering does not close as anticipated, management believes that the Company will be able to fund the build-out of the stores from existing cash balances and cash generated from operating activities. The Company may also defer the build-out of all or some of the proposed Spiritleaf retail cannabis stores until such time as it has the required funds, if any.

With over $4.4 million in working capital and the anticipated Offering, as well as no current commitments for capital expenditures, the Company is expected to have adequate capital resources for the 2021 financial year. In addition, as the trading price of the Common Shares on the Canadian Securities Exchange has generally risen to date in 2021, a number of the Company's outstanding options and warrants have been exercised after year end, and may continue to be exercised, providing the Company with additional capital.

Cash Flow Statement

For the years ended December 31,	2020	2019 (restated)
Cash provided by (used in) the following activities:		
Operating activities before working capital changes	$ 3,121,337	$ (4,700,081)
Changes in non-cash working capital	1,051,555	(460,023)
Operating activities	4,172,892	(5,160,104)
Financing activities	47,762	7,548,744
Investing activities	(1,571,384)	(2,538,174)
Change in cash	2,649,270	(149,534)
Cash and cash equivalents, beginning of year	2,026,054	2,175,588
Cash and cash equivalents, end of year	$ 4,675,324	$ 2,026,054

Operating Activities

For the year ended December 31, 2020, cash flows provided by operating activities were $4.2 million versus cash used of $5.2 million in 2019. The increase in cash provided from operations is primarily due to increased retail revenue from more corporate Spiritleaf retail cannabis stores and higher royalty revenue from more franchise stores, as well as reduced general and administration costs.

For the year ended December 31, 2020, operating activities were affected by a net decrease in non-cash working capital balances of $1.1 million (2019 – increase of $0.5 million) mainly as a result of the following items:

- A decrease in short-term deposits of $1.2 million (2019 – $nil) due to funds being transferred to the Company's cash account to be more readily available for use in operations;
- An increase in accounts receivables of $0.5 million (2019 - $0.4 million), due to increased revenue;
- An increase in prepaid expenses and deposits of $0.3 million (2019 – $0.04 million), due to increased operations and increased number of Spiritleaf retail cannabis stores;
- An increase in inventory of $0.3 million (2019 - decrease of $1.2 million) due to requiring more inventory for the additional corporate stores opened during the year;
- An increase in accounts payable of $0.6 million (2019 – decrease of $0.4 million) due increased expenditures during the year from increasing operations;
- An increase in franchise fee deposits of $0.3 million (2019 – decrease of $1.0 million) as more franchise locations are in the process of being opened;

Financing Activities

For the year ended December 31, 2020, cash provided by financing activities was $0.05 million (2019 - $7.5 million). The Company issued share capital of $3.0 million (2019 - $0.02 million) in the year. The Company made interest payments of $1.9 million on the convertible debentures it issued in 2019. In 2019, the Company received $9.1 million of net proceeds ($10 million gross proceeds) through the issuance of convertible debentures. The Company also expended $1.2 million (2019 - $1.7 million) of cash for lease payments.

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 ("**CEBA**") 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 repayment 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 were utilized to increase various COVID-19 protection measures for employees and customers in the stores as well as for general working capital purposes.

Investing Activities

For the year ended December 31, 2020, total cash used in investing activities was $1.6 million (2019 - $2.5 million). The Company acquired $2.4 million (2019 - $2.3 million) of property and equipment, net of dispositions. The Company disposed of $0.3 million of class 2 common stock in the capital of Tilray, Inc. (2019 - acquisition of $1.2 million), which were initially acquired as part of a private placement into the Company by Tilray, Inc. The Company issued loans to franchise partners of $0.05 million (2019 - $0.7 million) and received repayments of $0.6 million (2019 - $0.06 million). The Company disposed of $nil of intangible assets versus acquiring $0.8 million of intangible assets in 2019.

Statement of Financial Position

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

As at December 31,		2020		2019 (restated)
Total Current Assets	$	10,003,419	$	7,200,673
Total Non-Current Assets		21,739,004		15,549,035
Total Assets	$	31,742,423	$	22,749,708
Total Current Liabilities	$	5,573,635	$	4,355,113
Total Non-Current Liabilities		24,091,616		16,941,549
Total Liabilities		29,665,251		21,296,662
Total Shareholders' Equity of shareholders of company		2,414,360		1,784,665
Non-Controlling Interest		(337,188)		(331,619)
Total Shareholders' Equity		2,077,172		1,453,046
Total Liabilities and Equity	$	31,742,423	$	22,749,708

As at December 31, 2020, the Company had total assets of $31.8 million (December 31, 2019 - $22.7 million), an increase of $9.0 million. The increase in total assets resulted primarily from the increase in cash, accounts receivable, prepaid expenditures, inventory, net investment in subleases, and property and equipment.

As at December 31, 2020, the Company had total liabilities of $29.7 million (December 31, 2019 - $21.3 million), an increase of $8.4 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 11 retail store leases during the year ended December 31, 2020 but the commencement date of these did not begin until after the year-end, and as such these retail stores were not available for use during the period. Accordingly, they do not form a part of the leases disclosed in Note 7 of the Financial Statements.

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

		December 31, 2020
2020	$	513,753
2021	$	811,100
2022	$	822,653
2023	$	832,810
Thereafter	$	5,246,566

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, while long-term benefits include stock options.

Compensation provided to current key management and directors during the financial years ended December 31, 2020 and 2019 are as follows.

		2020		2019
Short-term benefits	$	433,466	$	401,210
Long-term benefits (*)		203,795		61,171
	$	637,261	$	462,381

(*) 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 year ended December 31, 2020, the Company paid $0.1 million (2019 - $0.04 million) in total rent and operating costs to a company controlled by the President, Chief Executive Officer and a director of the Company. The yearly rent increased as the size of office space rented by the Company was increased to accommodate the expanding head office workforce of the Company and was based on a fair value assessment completed by an independent appraiser.

Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value, issuable in series. As at December 31, 2020, the Company had 235,587,220 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.

Securities Outstanding	Number or Principal Amount Outstanding	Expiry Date	Exercise Price	Number of Common Shares Outstanding or Issuable Upon Conversion or Exercise
Common shares	241,881,427			241,881,427
12% Senior Secured Convertible Debentures	$8,596,000	June 30, 2022	$0.25	34,384,000
Stock options	20,347,500	February 28, 2023 to September 14, 2025	$0.10 to $0.20	20,347,500
Warrants	1,000,000	November 22, 2021 to April 3, 2023	$0.10	1,000,000
Fully diluted				297,612,927

Recently Adopted Accounting Pronouncements

New standards that have been adopted in the annual financial statements for the year ended December 31, 2020:

- Definition of a Business (Amendments to IFRS 3)
  Amendments to IFRS 3 were mandatorily effective for reporting periods beginning on or after 1 January 2020. The Group has applied the revised definition of a business for acquisitions occurring on or after 1 January 2020 in determining whether an acquisition is accounted for in accordance with IFRS 3 Business Combinations. The amendments do not permit the Group to reassess whether acquisitions occurring prior to 1 January 2020 met the revised definition of a business. See Note 24 for disclosures relating to the Company's business combination occurring during the year ended December 31, 2020.

Critical Accounting Estimates

A summary of the Company's significant accounting judgements and estimates is contained in Note 2 to the Financial Statements. These accounting policies are subject to estimates and key judgments about future events, many of which are beyond the Company's control.

The following is a discussion of the accounting estimates that are critical to the Financial Statements.

Use of estimates and judgments

The preparation of these Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods. Significant judgments, estimates and assumptions that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Going concern

Determining if the Company has the ability to continue as a going concern is dependent on its ability to achieve profitable operations. Certain judgments are made when determining if the Company will achieve profitable operations.

Expected credit losses

The Company's accounts receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses ("**ECLs**"). The Company measures ECLs based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

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.

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.

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.

Financial instruments

The Company issues convertible debentures, which may be comprised of embedded derivatives, debt and equity components. The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management.

In determining the fair value of the Company's debentures and derivative liability on the date of issuance, and at the date of the consolidated statement of financial position, management uses internally developed models. This method requires the input of a number of assumptions including estimated market rate of interest and volatility. These assumptions are determined using management's best estimates and involve inherent uncertainties. They are reviewed quarterly and may have a significant impact on the estimates of fair value of the embedded derivatives.

Deferred revenue

The Financial Statements include estimates in determining the period of recognizing amounts recorded as deferred revenue. There are based on management's best estimate and in this regard may be significantly different 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.

Revenue recognition - Franchise Fees

Management reviews the Company's recognition of initial franchise fees and revenue relating to the grant of franchisees. The Company evaluates the timing of the satisfaction of performance obligations, the transaction price, and amounts allocated to performance obligations.

Business combinations

On business combinations an assessment is made of the fair value of the consideration paid and of the assets and liabilities acquired. This principally requires management to assess the value of the acquired property and to identify whether there are any separately intangible assets on acquisition. Where an intangible asset has been identified, brand, customer relationships or re-acquired franchise rights, the value of the intangible asset is calculated using valuation techniques requiring certain assumptions including discount rates, royalty rates and future cash flows. Intangible asset amortized over managements' estimate of its expected useful life.

Financial Instruments and Risk Management

Fair Values

At December 31, 2020, the Company's financial instruments consist of cash, short-term deposits, accounts receivable, marketable securities, investments, loans to franchise partners, accounts payable, convertible debenture interest payable, payable to non-controlling interest, financial guarantee liability, derivative liability and convertible debenture. The fair values of cash, short-term deposits, accounts receivable, accounts payable and convertible debenture interest approximate their carrying values due to the relatively short-term maturity of these instruments.

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

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 year ended December 31, 2020 and 2019, there were no transfers of amounts between levels.

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

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

Credit Risk

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

All of the Company's cash includes petty cash, store cash floats, and cash held at two financial institutions, one being a Canadian Chartered Bank and the other being a Crown corporation owned by the Province of Alberta. Management believes that the risk of loss held at the banks is minimal.

The accounts receivable balances totaling $1.4 million is net of provision for expected credit losses of $0.09 million. 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 December 31, 2020 were collected subsequent to the period ended; accordingly, no provision for expected credit losses was determined for these balances. The net carrying value of accounts receivable as at the period ended represents the Company's maximum exposure to credit risk.

Below is a breakdown of the aged receivable balance:

		2020		2019
Current	$	820,135	$	342,882
31 – 60 days		92,864		2,570
61 – 90 days		42,992		9,532
Greater than 90 days		488,811		620,965
Accounts receivable	$	1,444,802	$	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							
		Within				Greater than		
As at December 31 2020		1 year		1-5 years		5 years		Total
Accounts payables and accrued liabilities	$	1,459,525	$	-	$	-	$	1,459,525
Convertible debentures interest payable		-		-		-		-
Payable to non-controlling interest		313,523		-		-		313,523
Refundable franchise fee deposits		178,750		202,500		-		381,250
Lease liabilities (undiscounted cash flows)		3,493,595		15,092,981		7,995,391		26,581,967
Financial guarantee liability		-		256,387		-		256,387
Convertible debenture		-		10,000,000		-		10,000,000
	$	5,445,393	$	25,551,868	$	7,995,391	$	38,992,652
As at December 31, 2019 (restated)								
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.

Prior Period Restatement

The Company has restated its December 31, 2019 comparative period, to correct an accounting error treatment of the initial measurement and recognition of the convertible debentures issued on May 24, 2019 and June 7, 2019 as disclosed in note 13 of the Financial Statements.

On review of the accounting treatment, management determined that the conversion feature of the convertible debt breached the fixed for fixed criteria under IFRS and thus met the definition of a derivative, which is required to be adjusted to fair value at each subsequent reporting date. The net impact to the December 31, 2019 consolidated financial statements is a decrease to share capital of $497,212, an increase to derivative conversion liability of $267,467 and a decrease to net loss of $225,745.

The full disclosure of the restatement is outlined in Note 26 of the Financials Statements**.**

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 following are some of the material specific and general risks that could affect the Company and its business. Additional risks and uncertainties not presently known to the Company or that the Company does not currently anticipate will be material, may impair the Company's business operations and its operating results and as a result could materially impact its business, results of operations, prospects and financial condition. Readers should additionally refer to the risk factors set out in the AIF, which, together with the risk factors below, do not necessarily constitute an exhaustive list.

COVID-19 Pandemic

Since December 31, 2019, the outbreak of COVID-19 has led governments worldwide to enact emergency measures to combat the spread of the virus. These measures, which include, among other things, the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. As of the date of this MD&A, the duration and the immediate and eventual impact of the COVID-19 pandemic remains unknown. In particular, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its industry partners. To date, a number of businesses have suspended or scaled back their operations and development as cases of COVID-19 have been confirmed, for precautionary purposes or as governments have declared a state of emergency or taken other actions. The extent to which COVID-19 impacts the Company's business, including its operations and the market for its securities, will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the pandemic and the actions taken to contain or treat the COVID-19 pandemic (including recommendations from public health officials). In particular, the continued spread of COVID-19 globally could materially and adversely impact the Company's business including without limitation, store closures or reduced operational hours or service methods, employee health, workforce productivity, reduced access to supply, increased insurance premiums, limitations on travel, the availability of experts and personnel and other factors that will depend on future developments beyond the Company's control, which could result in a material adverse effect on the Company, which means any change, event, effect, occurrence or state of facts that has, or could reasonably be expected to constitute a material adverse change in respect of or to have an effect that is materially adverse to the business, assets, liabilities (including contingent liabilities), conditions (financial or otherwise), prospects or results of operations of the Company and its subsidiaries, as applicable, taken as a whole ("**Material Adverse Effect**"). There can be no assurance that the Company's personnel will not be impacted by these pandemic diseases and ultimately see its workforce productivity reduced or incur increased costs as a result of these health risks. In addition, the COVID-19 pandemic represents a widespread global health crisis that could adversely affect global economies and financial markets resulting in an economic downturn that could result in a Material Adverse Effect.

Licences and Permits

The ability of the Company to continue its retail cannabis business is dependent on the good standing of various licences, permits and authorizations from time to time possessed by the Company and adherence to all regulatory requirements related to such activities. The Company will incur ongoing costs and obligations related to regulatory compliance, and any failure to comply with the terms of such licences, permits or authorizations, or to renew the licences, permits and authorizations after their expiry dates, could have a Material Adverse Effect on the Company. Although management believes that the Company will meet the requirements of applicable laws for future extensions or renewals of the applicable licences, permits and authorizations, there can be no assurance that applicable governmental bodies will extend or renew the applicable licences, permits and authorizations, or if extended or renewed, that they will be extended or renewed on the same or similar terms. In the event that the applicable governmental bodies do not extend or renew the applicable licences, permits and authorizations, or should they renew the applicable licences, permits or authorizations on different terms, any such event or occurrence could have a Material Adverse Effect on the Company.

The Company remains committed to regulatory compliance. However, any failure to comply with applicable laws may result in additional costs for corrective measures, penalties, or restrictions on the operations of the Company. In addition, changes in applicable laws or other unanticipated events could require changes to the operations of the Company, increased compliance costs or give rise to material liabilities, which could have a Material Adverse Effect on the Company.

Changes in Laws, Regulations and Guidelines

The Company's business is subject to a variety of applicable laws, including those relating to the marketing, acquisition, manufacturing, management, transportation, storage, sale, packaging and labeling, and disposal of cannabis and cannabis products. The Company is also subject to applicable laws relating to health and safety, the conduct of operations, taxation of products and the protection of the environment. As applicable laws pertaining to the cannabis industry are relatively new, it is possible that significant legislative amendments may still be enacted - either provincially or federally - that address current or future regulatory issues or perceived inadequacies in the regulatory framework. Changes to applicable laws could have a Material Adverse Effect on the Company. The legislative framework pertaining to the Canadian adult-use cannabis market is subject to significant provincial and territorial regulation. The legal framework varies across provinces and territories and results in asymmetric regulatory and market environments, different competitive pressures and additional compliance and other costs and/or limitations on the Company's ability to participate in such market.

Additionally, differences in provincial and territorial regulatory frameworks result in the Company's franchise model being financially prohibitive or unfeasible. In particular, some provinces do not allow private retailers of cannabis products, and in provinces that allow private retailers of cannabis products, the number of provincial licenses available to any one retailer for such sales of cannabis may be limited or obtaining a provincial license may be unduly expensive or burdensome. Municipal and regional governments may also choose to impose additional requirements and regulations on the sale of recreational cannabis, adding further uncertainty and risk to the Company's proposed cannabis franchise and retail model. Municipal by-laws could prohibit entirely or restrict the number of recreational cannabis retail outlets that are permitted in a certain geographical area, or restrict the geographical locations wherein such retail outlets may be operated.

There is no assurance that all, or any, of the Spiritleaf retail cannabis stores that are currently proposed to be opened by the Company (through its subsidiaries) or by franchise partners of Spirit Leaf will be permitted to open.

Compliance with Laws

The Company's and many of its suppliers' operations are subject to various laws, regulations and guidelines. The Company intends to comply with all relevant laws, regulations and guidelines. However, there is a risk that the Company's interpretation of laws, regulations and guidelines, including, but not limited to the Cannabis Act, the regulations thereunder (the "**Cannabis Regulations**"), the various provincial regimes governing the sale of adult-use recreational cannabis (the "**Provincial Regimes**") and applicable stock exchange rules and regulations may differ from those of others, and the Company's and its suppliers' operations may not be in compliance with such laws, regulations and guidelines. In addition, achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by Governmental Authorities and, where necessary, obtaining regulatory approvals. The impact of regulatory compliance regimes, any delays in obtaining, or failure to obtain regulatory approvals required by the Company may significantly delay or impact the development and operations of the Company's business, and could have a Material Adverse Effect on the Company. Any potential non-compliance could cause the business, financial condition and results of the operations of the Company to be adversely affected. Furthermore, any amendment to or replacement of the Cannabis Regulations, the Cannabis Act, the Provincial Regimes or other applicable rules and regulations governing the activities of the Company and its suppliers may cause adverse effects to the Company's operations. The risks to the business of the Company or its suppliers associated with the decision to amend or replace the Cannabis Regulations, the Cannabis Act, any Provincial Regime and subsequent regulatory changes could reduce the potential customers of the Company and could materially and adversely affect the business, financial condition and results of operations of the Company.

It is unclear how certain regulatory bodies will interpret commercial, strategic or licensing agreements with respect to retail cannabis operations. The Company intends to enter into such agreements in compliance with all applicable law, however, provincial regulators are continuing to provide guidance on how cannabis retailers should interpret certain Provincial Regimes. In the event provincial regulators indicate that they shall interpret certain Provincial Regimes in a manner inconsistent with that of cannabis retailers, including, but not limited to the Company, this could result in the Company being unable to enter into certain commercial agreements or provide certain services which could have a Material Adverse Effect on the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with applicable laws and regulations may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures or remedial actions. Parties may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permitting requirements, or more stringent application of existing laws or regulations may have a material adverse impact on the Company or its suppliers, resulting in increased capital expenditures or production costs, reduced levels of cannabis production or abandonment or delays in the development of facilities which could have a Material Adverse Effect on the Company.

The introduction of new tax laws, regulations or rules, or changes to, or differing interpretation of, or application of existing tax laws, regulations or rules could result in an increase in the Company's taxes, or other governmental charges, duties or impositions. No assurance can be given that new tax laws, regulations or rules will not be enacted or that existing tax laws, regulations or rules will not be changed, interpreted or applied in a manner which could result in the Company's profits, if any, being subject to additional taxation or which could otherwise have a Material Adverse Effect on the Company.

Due to the nature of the Company's operations, various legal and tax matters may be outstanding from time to time. If the Company is unable to resolve any of these matters favourably, there may be a Material Adverse Effect on the Company. There are also risks to the business of the Company represented by court rulings or legislative changes.

Suppliers

Cannabis retailers are dependent on the supply of cannabis products from licensed producers that are authorized by a licence issued under the *Cannabis Act* (Canada) to produce cannabis for commercial purposes ("**Licensed Producers**"). There can be no assurance that there will be a sufficient supply of cannabis available to the Company to purchase and to operate its retail cannabis business or satisfy demand (whether generally or for specific products). Licensed Producers' growing operations are dependent on a number of key inputs and their related costs, including raw materials and supplies. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact Licensed Producers and, in turn, could have a Material Adverse Effect on the Company. Any inability of Licensed Producers to secure required supplies and services or to do so on appropriate terms could also have a Material Adverse Effect on the Company. The facilities of the Licensed Producers could be subject to adverse changes or developments, including but not limited to a breach of security, which could have a Material Adverse Effect on the Company. Any breach of the security measures and other facility requirements, including any failure to comply with recommendations or requirements arising from inspections by Health Canada or other legal or regulatory requirements could also have an impact on the ability of Licensed Producers supplying the Company to continue operating under their licences or the prospect of renewing their licences or on the ability or willingness of the Company to sell product sourced from one or more Licensed Producers, which could have a Material Adverse Effect on the Company.

In addition to the foregoing, one or more of the risk factors contemplated herein may also directly apply to, and impact, the business, operations and financial condition of the Licensed Producers supplying the Company, resulting in such Licensed Producers to experience operational slowdowns or other barriers to operations (including as a result of protective measures associated with the COVID-19 pandemic) which may affect the ability of the Company to obtain and sell product sourced from such Licensed Producer. In turn, such events could have an indirect Material Adverse Effect on the Company.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products produced by the Company's suppliers are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and potentially any legal proceedings that might arise in connection with the recall. In addition, a product recall may require significant attention of the management of the Company. Additionally, if one of the products produced or distributed by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for products sold by the Company and could have a Material Adverse Effect on the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses, which could have a Material Adverse Effect on the Company.

Product Liability

As 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 also occur. The Company may be subject to various product liability claims, including, among others, that the products sold 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 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 the products of the Company.

Cannabis Prices

The revenues of the Company are in large part derived from the sale and distribution of cannabis, and as such, the profitability of the Company may be regarded as being directly related to the price of cannabis. The cost of production, sale, and distribution of cannabis is dependent on a number of key inputs and their related costs, including equipment and supplies, labour and raw materials related to the growing operations of cannabis suppliers, as well other overhead costs such as electricity, water, and utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could have a Material Adverse Effect on the Company. Further, any inability to secure required supplies and services or to do so on favourable terms could have a Material Adverse Effect on the Company. This includes, among other things, changes in the selling price of cannabis and cannabis products set by the applicable province or territory. There is currently no established market price for cannabis and the price of cannabis is affected by numerous factors beyond the Company's control. Any price decline could have a Material Adverse Effect on the Company. The operations of the Company may be sensitive to changes in the price of cannabis and the overall condition of the cannabis industry.

Failure or Significant Delays in Obtaining Regulatory Approvals

The ability of the Company to achieve its business objectives are contingent, in part, upon compliance with the regulatory requirements enacted by applicable governmental bodies, including those imposed by applicable cannabis regulatory authorities, and obtaining and maintaining all necessary licences, permits and authorizations, where necessary. The Company cannot predict the time required to secure all appropriate licences, permits and authorizations to open the retail cannabis stores intended to be opened by the Company and Spirit Leaf's franchise partners. The impact of regulatory compliance regimes and any delays in obtaining, or failure to obtain, the required licences, permits or authorizations may significantly delay or impact the development of the business and operations of the Company. Non-compliance could also have a Material Adverse Effect on the Company.

Reliance on Management

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management as well as certain consultants (collectively, the "**Key Personnel**"). The Company's future success depends on its continuing ability to attract, develop, motivate, and retain the Key Personnel. Qualified individuals for Key Personnel positions are in high demand, and the Company may incur significant costs to attract and retain them. The loss of the services of Key Personnel, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. While employment and consulting agreements are customarily used as a primary method of retaining the services of Key Personnel, these agreements cannot assure the continued services of such individuals and consultants.

Reliance on Franchisees

The Company receives a significant portion of its operating revenue in the form of franchise royalty payments. Failure to achieve adequate levels of collection from Spirit Leaf's franchisees, suppliers, landlords 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 Spirit Leaf'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.

The Company's proposed business and results of operation will be significantly dependent upon the success of Spirit Leaf's franchisees' retail cannabis stores. The Company's franchisees' stores may be adversely affected by: (a) declining economic conditions; (b) increased competition in the retail cannabis market; (c) changes in consumer preferences; (d) demographic trends; (e) changes in consumer sentiments towards the use of cannabis-based products; (f) customers' budgeting constraints; (g) customers' willingness to accept product price increases; (h) adverse weather conditions; (i) the Company's reputation and consumer perception of its market position and offerings in terms of quality, price, value and service; (j) customers' experiences in Spiritleaf retail cannabis stores; (k) and other risk factors discussed in this Risk Factors section in respect of the Company which may apply to such franchisees.

The Company's franchisees may also be susceptible to increases in certain key operating expenses that are either wholly or partially beyond its control, including: (a) labour costs, including wages, workers' compensation, minimum wage requirements, health care and other benefits expenses; (b) rent expenses and construction, remodeling, maintenance and other costs under leases; (c) compliance costs as a result of changes in legal, regulatory or industry standards; (d) energy, water and other utility costs; (e) insurance costs; (f) information technology and other logistical costs; and (g) expenses associated with legal proceedings, if any.

Competition

The Company faces, and will continue to face, intense competition from other companies, some of which can be expected to have longer operating histories and greater financial resources (including technical, marketing, and other resources compared to the Company). Such companies may be able to devote greater resources to the development, promotion, sale and support of their respective products and services. Such companies may also have more extensive customer bases and broader customer relationships, and may make it increasingly difficult for the Company to, among other things, enter into favorable business agreements, negotiate favourable prices, recruit or retain qualified employees, and acquire the capital necessary to fund capital investments by the Company.

In addition, management estimates that, as of the date of this MD&A, there may be currently hundreds of applications for retail cannabis store licences, permits and authorizations being processed by applicable cannabis regulatory authorities. The number of licences, permits and authorizations granted, and the number of retail cannabis store operators ultimately authorized by applicable cannabis regulatory authorities, could have an adverse impact on the ability of the Company to compete for market share in the cannabis market within various jurisdictions in Canada. The Company also faces competition from illegal cannabis dispensaries, engaged in the sale and distribution of cannabis to individuals without valid licences, permits or authorizations.

As the cannabis market continues to mature, both domestically and internationally, the overall demand for products and the number of competitors may be expected to increase significantly. Such increases may also be accompanied by shifts in market demand, and other factors that management cannot currently anticipate, and which could potentially reduce the market for the products of the Company, and ultimately have a Material Adverse Effect on the Company.

In order to remain competitive in the evolving cannabis market, the Company will need to invest significantly in, among other things, research and development, market development, marketing, production expansion, new client identification, distribution channels, and client support. In the event that the Company is not successful in obtaining sufficient resources to invest in these areas, the ability of the Company to compete in the cannabis market may be adversely affected, which could have a Material Adverse Effect on the Company.

Opening of Franchise Stores

The opening of additional franchise Spiritleaf retail cannabis stores depends, in part, upon the availability of prospective franchisees who meet Spirit Leaf's criteria. Spirit Leaf may not be able to identify, recruit or contract with suitable franchisees in its target markets on a timely basis or at all. In addition, the Company's potential franchisees may not ultimately be able to access the financial or management resources that they need to open the stores contemplated by their agreements with Spirit Leaf, or they may elect to cease store development for other reasons or they may be limited to the number of licenses available in a particular province or municipality. If Spirit Leaf is unable to recruit suitable franchisees or if franchisees are unable or unwilling to open new stores as planned, the Company's growth may be slower than anticipated, or cease, which could materially adversely affect its ability to increase its revenue and materially adversely affect its business, financial condition and results of operations. In addition, franchise Spiritleaf retail cannabis stores are subject to various laws, regulations and guidelines relating to the management, packaging/labelling, advertising, sale, transportation, storage and disposal of cannabis. While the Company intends to comply with all such laws and to ensure that its franchisees comply with all such laws, there is a risk that franchises will fail to do so.

Limited Operating History

The Company, specifically its cannabis business, has a very limited history of operations. As such, the Company is subject to many risks common to earl-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its expected early stage of operations. The limited operating history may also make it difficult for investors to evaluate the Company's prospects for success. There is no assurance that the Company will be successful and the likelihood of success must be considered in light of its early stage of operations.

Because the Company has a limited operating history in an emerging area of business, its operating prospects should be considered and evaluated in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include, but are not limited to: (a) risks that it may not have sufficient capital to achieve its growth strategy; (b) risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements; (c) risks that its growth strategy may not be successful; (d) risks that fluctuations in its operating results will be significant relative to its revenues; and (e) risks relating to an evolving regulatory regime.

General Economic Risks

The Company's operations could be affected by the economic context should interest rates, inflation or the unemployment level reach levels that influence consumer trends and spending and, consequently, impact the Company's sales and profitability.

Any investors should further consider, among other factors, the Company's prospects for success in light of the risks and uncertainties encountered by companies that, like the Company, are in their early stages. For example, unanticipated expenses and problems or technical difficulties may occur, which may result in material delays in the operation of the Company's business. The Company may not successfully address these risks and uncertainties or successfully implement its operating strategies to mitigate the impact of such risks and uncertainties. In the event that the Company fails to do so, such failure could materially harm the Company's business and could result in a Material Adverse Effect on the Company.

Management of Growth

To manage growth effectively and continue the sale and distribution of cannabis and cannabis products at the same pace as currently undertaken, or at all, the Company will need to continue to implement and improve its operational and financial systems and to expand, train and manage its larger employee base. The ability of the Company to manage growth effectively may be affected by a number of factors, including, among other things, non-performance by third party contractors and suppliers, increases in materials or labour costs, and labour disputes. The inability of the Company to manage or deal with growth could have a Material Adverse Effect on the Company.

Additional Financing

The continued development of the Company may require additional financing such as the Offering. The failure to raise such capital could result in the delay or indefinite postponement of current business strategies or the Company ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares.

In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may contain provisions, which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing.

Forward-Looking Information

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", "intend", "estimate", "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 corporate and franchise Spiritleaf retail cannabis stores in select Canadian provinces, including expected store openings in 2021; the arrangement with Headset-Nielsen providing the Company with opportunities for additional high-margin revenue streams; the Company's planned retail operations across Canada as of the date of this MD&A; the intention of the Company to continue to seek and secure real-estate locations for potential corporate Spiritleaf retail cannabis stores in certain Canadian jurisdictions; the anticipation that certain of the Company's historical expenses are non-recurring and/or will normalize over time; the anticipated build-out cost of proposed corporate Spiritleaf retail cannabis stores; the closing of the Offering and the use of proceeds thereof; the expectation that the Company will have adequate capital resources for the 2021 financial year; 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, permits and authorizations 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 ability of the Company to complete the Offering on acceptable terms or at all, and the timing thereof; 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 franchise Spiritleaf retail cannabis stores; the risk that the Offering does not close as anticipated or at all; 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; the ability to capitalize on changes to the marketplace; and the factors and risks identified under the "*Risk Factors*" section of this MD&A and the AIF. 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.