Inner Spirit Holdings Ltd.

Interim Condensed Consolidated Financial Statements
For the three months ended March 31, 2021 and 2020
(Unaudited)
(Expressed in Canadian Dollars unless otherwise stated)

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

As at	Notes		March 31, 2021 (Unaudited)		December 31, 2020 (Audited)
ASSETS					
Current					
Cash and short term deposits		$	**13,305,188**	$	4,675,324
Accounts receivable	21		**1,650,131**		1,444,802
Prepaid expenses and deposits			**707,310**		415,077
Inventory	4		**2,097,067**		1,751,468
Loans to franchise partners	7		**20,346**		24,748
Net investment in subleases	6		**2,454,532**		1,692,000
Total current assets			**20,234,574**		10,003,419
Non-current					
Investments	5		**146,434**		71,434
Loans to franchise partners	7		**16,936**		22,252
Intangible assets	8		**2,407,726**		2,399,058
Lease deposits	6		**475,241**		460,834
Right-of-use assets	6		**5,384,719**		4,355,190
Net investment in subleases	6		**11,772,966**		9,628,603
Property and equipment	9		**5,803,256**		4,801,633
Total assets			**46,241,852**	$	31,742,423
LIABILITIES AND EQUITY					
Current					
Accounts payable and accrued liabilities			**2,208,754**	$	1,459,525
Accrued debenture interest payable			**242,000**		-
Derivative liability	13		**1,375,333**		317,684
Current portion of lease liabilities	6		**3,569,283**		2,736,227
Franchise fee deposits	10		**291,500**		365,000
Deferred revenue	12		**341,031**		341,031
Payable to non-controlling interest	17		**-**		313,523
Unredeemed gift card liability	11		**20,807**		40,645
Total current liabilities			**8,048,708**		5,573,635
Non-current					
Franchise fee deposits	10		**602,500**		588,750
Lease liabilities	6		**16,429,081**		13,268,100
Financial guarantee liability	6		**342,765**		256,387
Convertible debenture	13		**7,220,939**		8,335,163
Deferred revenue	12		**270,332**		355,590
CEBA loans	14		**120,000**		120,000
Total liabilities			**33,034,325**		28,497,625
Equity					
Share capital	15		**32,280,709**		24,042,123
Contributed surplus			**5,084,320**		5,358,186
Warrants	13,15d		**4,147,326**		97,850
Deficit			**(28,304,828)**		(25,916,173)
Equity attributable to owners of the company			**13,207,527**		3,581,986
Non-controlling interest	17		**-**		(337,188)
Total shareholders equity			**13,207,527**		3,244,798
Total liabilities and shareholders equity			**46,241,852**	$	31,742,423

Nature of operations and going concern (Note 1)

Approved on behalf of the Board of Directors:

"Signed"
Darren Bondar, Director

"Signed"
Christopher Gulka, Director

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

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
For the Three Months Ended March 31, 2021 and 2020

For the three months ended	Notes	March 31, 2021	March 31, 2020 (restated - Note 23)
Revenue			
Retail		**$ 5,921,522**	$ 2,641,063
Royalties		**1,356,588**	738,125
Advertising		**304,609**	147,949
Millwork		**616,661**	327,459
Franchise fee		**158,750**	73,750
Supply		**447,759**	205,406
Total revenue		**8,805,889**	4,133,752
Cost of sales	4,12	**4,669,737**	2,166,683
Gross profit		**4,136,152**	1,967,069
Operating expenses			
Salaries, wages, and benefits		**1,703,080**	1,104,594
Sales and marketing		**299,187**	195,403
General and administrative		**1,486,065**	635,724
Occupancy costs		**134,706**	165,595
Right-of-use assets depreciation	6	**231,284**	172,013
Depreciation and amortization	8,9	**445,149**	367,331
Share-based compensation	15c,d	**99,818**	45,498
Total operating expenses		**4,399,289**	2,686,158
Operating loss		**(263,137)**	(719,089)
Loss on marketable securities		**-**	354,166
Net gain on leases	6	**-**	(210,005)
Financial guarantee liability expense	6	**86,378**	43,882
Finance income	6	**(480,384)**	(259,459)
Interest expense (accretion) - leases	6	**679,028**	461,081
Interest expense		**272,119**	303,333
Revaluation loss on derivative	13	**1,319,422**	-
Convertible debenture accretion	13	**242,709**	179,934
		2,119,272	872,932
Net loss and comprehensive loss for the period		**$ (2,382,409)**	$ (1,592,021)
Net income (loss) and comprehensive loss attributed to:			
Owners of the Company		**(2,388,655)**	(1,577,030)
Non-controlling interest	17	**6,246**	(14,991)
Net loss per share - Basic and diluted	16	**($0.01)**	**($0.01)**

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

Inner Spirit Holdings Ltd.

Interim Condensed Consolidated Statements of Changes in Equity (Unaudited)

For the Three Months Ended March 31, 2020 and 2020

	Notes	Number of common shares		Share capital		Contributed surplus		Warrants		Deficit		Non-controlling interest ("NCI")		Total
Balance, December 31, 2019	23	206,236,295	$	21,007,107	$	1,355,536	$	3,415,982	$	(23,279,770)	$	(331,619)	$	2,167,236
Private placements	15b	16,854,542		1,685,454		-		-		-		-		1,685,454
Share-based compensation	15c,d	-		-		45,498		-		-		-		45,498
Expiration of w arrants	15d	-		-		877,857		(877,857)		-		-		-
Share issuance costs	15b	-		(15,060)		-		-		-		-		(15,060)
Net loss and comprehensive loss		-		-		-		-		(1,592,021)		(14,991)		(1,607,012)
Balance, March 31, 2020 (restated)	23	223,090,837	$	22,677,501	$	2,278,891	$	2,538,125	$	(24,871,791)	$	(346,610)	$	2,276,116
Balance, December 31, 2020		235,587,220	$	24,042,123	$	5,358,186	$	97,850	$	(25,916,173)	$	(337,188)	$	3,244,798
Shares issued for services	**15b**	**86,957**		**20,000**		**-**		**-**		**-**		**-**		**20,000**
Prospectus offering	**15b**	**41,078,000**		**8,036,072**		**-**		**3,465,768**		**-**		**-**		**11,501,840**
Broker warrants issued	**15b**	**-**		**(509,868)**		**-**		**509,868**		**-**		**-**		**-**
Acquisition of non-controlling interest	**15b,17**	**1,425,106**		**257,944**		**(368,834)**		**98,332**		**-**		**330,942**		**318,384**
Exercise of options	**15c**	**291,250**		**48,500**		**(4,850)**		**-**		**-**		**-**		**43,650**
Exercise of warrants	**15d**	**300,000**		**54,492**		**-**		**(24,492)**		**-**		**-**		**30,000**
Conversion of convertible debentures	**13,15b**	**6,396,000**		**1,356,933**		**-**		**-**		**-**		**-**		**1,356,933**
Conversion of derivative liability	**13,15b**	**-**		**261,773**		**-**		**-**		**-**		**-**		**261,773**
Share issuance costs	**15b**	**-**		**(1,287,260)**		**-**		**-**		**-**		**-**		**(1,287,260)**
Share based compensation	**15c**	**-**		**-**		**99,818**		**-**		**-**		**-**		**99,818**
Net loss and comprehensive loss		**-**		**-**		**-**		**-**		**(2,388,655)**		**6,246**		**(2,382,409)**
Balance, March 31, 2021		**285,164,533**	**$**	**32,280,709**	**$**	**5,084,320**	**$**	**4,147,326**	**$**	**(28,304,828)**	**$**	**-**	**$**	**13,207,527**

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

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020

For the three months ended	Notes	March 31, 2021	March 31, 2020 (restated - Note 23)
Cash provided by (used in) the following activities:			
Operating			
Net loss for the period		**(2,382,409)**	$ (1,592,021)
Adjustments for:			
Non-cash deferred revenue	12	**(85,258)**	(85,258)
Loss on marketable securities		**-**	354,166
Gain on leases		**-**	(210,005)
Inventory write down	4	**2,751**	-
Right-of-use assets depreciation	6	**231,284**	172,013
Financial guarantee liability expense	6	**86,378**	43,882
Finance income	6	**(480,384)**	(259,459)
Interest expense (accretion) - leases	6	**679,028**	461,081
Depreciation and amortization	8,9	**445,149**	367,331
Revaluation loss on derivative	13	**1,319,422**	-
Convertible debenture accretion	13	**242,709**	179,934
Convertible debenture interest expense	13	**272,119**	303,333
Share-based compensation	15c,d	**99,818**	45,498
Changes in non-cash working capital balances	22	**(187,270)**	(1,314,238)
Cash flow provided by (used in) operating activities		**243,337**	(1,533,743)
Financing			
Lease payments		**(372,314)**	(270,508)
Accretion on franchise loans	7	**-**	(17,762)
Issuance of share capital, net of issuance costs	15	**10,268,626**	1,670,394
Cash flow provided by financing activities		**9,896,312**	1,382,124
Investing			
Investments	5	**(75,000)**	-
Lease deposits		**-**	644,082
Loan to franchise partners	7	**-**	(50,000)
Receipt of repayment of loan to franchise partners	7	**9,718**	60,000
Disposition (acquisition) of intangibles, net	8	**(184,718)**	-
Acquisition of property and equipment	9	**(1,286,790)**	(256,023)
Disposition of property and equipment	9	**27,005**	314,559
Cash flow used in investing activities		**(1,509,785)**	712,618
Change in cash		**8,629,864**	560,999
Cash, beginning of year		**4,675,324**	2,026,054
Cash, end of period		**13,305,188**	$ 2,587,053

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Inner Spirit Holdings Ltd. ("Inner Spirit" or the "Company") was incorporated under the Business Corporations Act (Alberta) on March 16, 2017. The Company was amalgamated under the Business Corporations Act (Alberta) on August 31, 2017 with 2043246 Alberta Ltd. to continue as Inner Spirit Holdings Ltd. The Company's registered office is located at Suite 1600 Dome Tower, 333 7th Avenue S.W., Calgary, Alberta,T2P 2Z1.

The Company has four wholly-owned operating subsidiaries: (i) Spirit Leaf Inc. ("Spirit Leaf Inc"), (ii) Spirit Leaf Macleod Inc. ("Spirit Leaf Macleod"), (iii) Spirit Leaf Corporate Inc. ("Spirit Leaf Corporate"), and (iv) Spirit Leaf Ontario Inc. ("Spirit Leaf Ontario"), (collectively referred to as "Spirit Leaf"). The subsidiaries were incorporated under the laws of the Province of Alberta (other than Spirit Leaf Ontario which was incorporated under the laws of the Province of Ontario), are headquartered in Calgary, Alberta, and are extra-provincially registered in the various jurisdictions in which they operate. Spirit Leaf Inc.'s primary business is the planned opening and ongoing support of franchise retail cannabis stores in Canadian jurisdictions where the private sale of recreational cannabis is permitted. Spirit Leaf Macleod's primary business is the current operation of a corporate retail cannabis store in Alberta. Spirit Leaf Corporate's primary business is the current operation and planned opening of wholly-owned corporate retail cannabis stores in Alberta, Saskatchewan, and Manitoba. Spirit Leaf Ontario's primary business is the current operation and planned opening of wholly-owned corporate retail cannabis stores in Ontario.

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

During the period ended March 31, 2021, the Company incurred a net loss and comprehensive loss of $2,382,409 (March 31, 2020 - $1,592,021) and, as of that date, had a deficit of $28,304,828 (December 31, 2020 - $25,916,173).

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

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

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

2. BASIS OF PRESENTATION

Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards 34, "Interim Financial Reporting" ("IAS34") as issued by the International Accounting Standards Board ("IASB"), and interpretations of the IFRS Interpretations Committee ("IFRIC"). These Financial Statements are prepared in accordance with the same accounting policies, critical estimates and methods described in the Company's annual consolidated financial statements. Given that certain information and note disclosures, which are included in the annual audited consolidated financial statements, have been condensed or excluded in accordance with IAS 34, these Financial Statements should be read in conjunction with the annual audited consolidated financial statements as at and for the year ended December 31, 2020, including the accompanying notes thereto, which are available on SEDAR at www.sedar.com.

These Financial Statements were approved and authorized by the Board of Directors on May 28, 2021.

Basis of measurement

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

Basis of consolidation

The Financial Statements consolidate all of Inner Spirit's subsidiaries, all of which are domiciled in Canada:

Entity Name	Ownership Percentage
Spirit Leaf Inc.	100%
Spirit Leaf Corporate Inc.	100%
Spirit Leaf Ontario Inc.	100%
Spirit Leaf Macleod Inc.	50.1% during period ending March 31, 2021 100% as at March 31, 2021

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

Non-controlling interest ("NCI")

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

During the year ended December 31, 2020 and the period ended March 31, 2021, the Company owned 50.1% of the common shares outstanding of its subsidiary, Spirit Leaf Macleod Inc. As at March 31, 2021, the Company acquired 100% of Spirit Leaf Macleod (Note 17). These Financial Statements include 100% of the assets and liabilities of Spirit Leaf Macleod, and include a non-controlling interest representing 49.9% of Spirit Leaf Macleod's net income not owned by the Company during the period ended.

Functional currency

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

Significant accounting judgments and estimates

The significant accounting judgements and estimates are set out in the Company's December 31, 2020 audited consolidated financial statements and were consistently applied to all periods presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the Company are set out in the Company's December 31, 2020 audited consolidated financial statements and were consistently applied to all periods presented.

4. INVENTORY

	March 31, 2021	December 31, 2020
Retail	$ 1,977,867	$ 1,624,837
Millwork	119,200	126,631
	$ 2,097,067	$ 1,751,468

Inventory costs included in cost of sales	March 31, 2021	March 31, 2020
Expensed inventories - retail	$ 4,075,982	$ 1,839,829
Expensed inventories - millwork	593,755	326,854
	$ 4,669,737	$ 2,166,683

Included in cost of sales for the period ended March 31, 2021 are inventory write-downs for damaged inventory and inventory shrinkage in the amount of $2,751 (March 31, 2020 - $nil).

5. INVESTMENTS

Fair market value, December 31, 2020 and 2019	$ 71,434
Investments	75,000
Unrealized loss	-
Fair market value, December 31, 2020 and March 31, 2021	$ 146,434

During the year ended December 31, 2018, the Company made an investment of US$110,000 (CDN$149,710) in Hightimes Holding Corp. (“Hightimes”). As at March 31, 2021, the fair market value of the investment was estimated by the Company to be $71,434 (December 31, 2020 - $71,434).

During the period ended March 31, 2021, the Company made an investment of $75,000 Looppool Limited (“Looppool”) through a simple agreement for future equity (“SAFE”) agreement. As at March 31, 2021, the fair market value of the investment was estimated by the Company to be $75,000.

6. LEASES

The Company’s leases comprise leases of its office premises and various retail stores. Some of the retail stores are used as corporate retail stores run by the Company and some have been subleased for their remaining lease terms for the full amount of lease payments. The Company’s leases have terms expiring between 2021 and 2031.

In addition, the Company has provided guarantees on several retail outlet leases entered into by its franchisees. If the franchisees default on the lease payments, the Company would be liable for these lease payments and the ongoing lease liability. All of the Company’s leases for Spirit Leaf have a conditional termination clause that allows for the lease to be terminated with a pre-determined penalty in the event that the Company is not able to secure a permit to sell cannabis at any particular location. This termination clause expires at the earlier of obtaining licence to sell cannabis or at a pre-determined date as set out in the agreement.

Lease contracts are typically made for fixed periods of 5 to 10 years but may have extension options. Lease extensions have not been included in the valuation of the right-of-use assets and the lease liabilities, as the Company is not reasonably certain that these extensions will be exercised as the decision would be based on market conditions prevailing in those future times. Whilst the Company strives to maintain similar terms and conditions for all of its leases, lease terms are negotiated on an individual basis and may contain a wide range of different terms and conditions.

Pursuant to the terms of the leases, the Company has had to provide lease (rent) and security deposits at the commencement of the leases. The lease deposits are generally set off against future lease payments and security deposits are returned to the Company at the end of the lease term. The lease and security deposits as at March 31, 2021 totaled $475,241 (December 31, 2020 - $460,834).

6. LEASES (CONTINUED)

Right-of-use assets:
Below is a summary of the activities related to the right-of-use assets for the period ended March 31, 2021.

Cost		March 31, 2021		December 31, 2020
Cost, beginning balance	$	5,979,548	$	6,662,847
Additions		4,991,270		7,612,362
Terminations		-		(837,968)
Derecognition upon sub-lease		(3,730,457)		(7,457,693)
Cost, ending balance	$	7,240,361	$	5,979,548
Accumulated depreciation				
Beginning balance	$	(1,624,358)	$	(1,171,878)
Depreciation		(231,284)		(712,138)
Terminations		-		252,412
Derecognition upon sub-lease		-		7,246
Ending balance	$	(1,855,642)	$	(1,624,358)
Net book value	$	5,384,719	$	4,355,190

Sub-lease arrangements:
The Company entered into a number of leases, for which it was able to sublease to certain of its franchise partners. The Company has classified these subleases as a financial lease because the subleases are for the remaining term of the head lease. At the commencement date, the Company recognized the assets held under the finance lease in the consolidated statement of financial position and presented them as a receivable at an amount equal to the net investment in the lease.

The Company has used an incremental borrowing rate ranging between 9.4% and 17.95%, which is consistent with the incremental borrowing rate used for its head leases because the rate implicit in the subleases could not be readily determined.

Below is a summary of the activity related to the net investment in subleases for the period ended March 31, 2021.

		March 31, 2021		December 31, 2020
Net investment in subleases, beginning	$	11,320,603	$	2,664,067
Additions		3,682,945		9,297,586
Finance income		480,384		1,257,073
Rents recovered (payments made directly to landlords)		(712,704)		(1,589,608)
Terminations		(543,730)		(308,515)
Net investment in subleases, ending	$	14,227,498	$	11,320,603
Of which are:				
Current portion	$	2,454,532	$	1,692,000
Non-current portion	$	11,772,966	$	9,628,603

For the period ended March 31, 2021, the Company recorded a gain of $nil (March 31, 2020 - $210,005) in its sublease arrangements.

6. LEASES (CONTINUED)

Lease liability

Below is a summary of the activity related to the lease liabilities for the period ended March 31, 2021.

	March 31, 2021	December 31, 2020
Beginning balance	$ 16,004,327	$ 8,654,788
Additions	4,943,757	9,189,617
Terminations	(543,730)	(1,117,656)
Accretion of lease liabilities	679,028	2,017,923
Lease payments	(1,085,018)	(2,740,345)
Lease liabilities, ending balance	$ 19,998,364	$ 16,004,327
Of which are:		
Current lease liabilities	$ 3,569,283	$ 2,736,227
Non-current lease liabilities	$ 16,429,081	$ 13,268,100

For the period ended March 31, 2021, the Company recorded a gain of $nil (March 31, 2020 - $nil) on the derecognition of some of its leases.

Franchise guarantee liability

For franchise operated locations where the Company or its subsidiaries provided an indemnity (financial guarantee) for its franchisees, lease payments are made directly to the landlord by the franchisee, and the obligation to make lease payments would only revert to the Company if a franchisee defaulted on their obligations under the terms of the sub-lease or lease. The Company has made an estimate of expected credit losses in the event of default by the franchisees in making lease payments. This amount has been recorded in the consolidated statement of financial position as financial guarantee liability in the amount of $342,765 (December 31, 2020 – $256,387) and in the consolidated statement of loss and comprehensive loss as financial guarantee liability expense in the amount of $86,378 (March 31, 2020 - $43,882).

7. LOANS TO FRANCHISE PARTNERS

	March 31, 2021	December 31, 2020
Balance, beginning of year	$ 47,000	$ 539,883
Loans issued	-	50,000
Repayments of loans	(9,718)	(639,667)
Fair value adjustment	-	136,265
Accretion (reversal)	-	(39,481)
Balance, end of year	$ 37,282	$ 47,000
Of which are:		
Current portion	$ 20,346	$ 24,748
Non-current portion	$ 16,936	$ 22,252

During the period ended March 31, 2021, the Company provided loans to a number of its franchise partners totaling $nil (December 31, 2020 - $50,000). During the year ended December 31, 2020, $50,000 of the loans had an annual interest rate of 12%, with final payments due within 1 year of loan. This loan also had a 2% loan fee, which was deducted from initial loan advance. This loan was repaid during the year ended December 31, 2020.

8. INTANGIBLE ASSETS

Cost	Store permits	Franchise inducements	Re-acquired franchise rights	Total
December 31, 2019	$ 2,771,035	$ 1,133,867	$ -	$ 3,904,902
Additions	-	-	1,035,111	1,035,111
Settlement of franchise inducements	-	(1,133,867)	-	(1,133,867)
Impairment	(508,622)	-	-	(508,622)
December 31, 2020	2,262,413	-	1,035,111	3,297,524
Additions	184,718	-	-	184,718
March 31, 2021	$ 2,447,131	$ -	$ 1,035,111	$ 3,482,242
Accumulated amortization				
December 31, 2019	$ (268,169)	$ (98,756)	$ -	$ (366,925)
Settlement of franchise inducements	-	98,756	-	98,756
Amortization	(508,816)	-	(121,481)	(630,297)
December 31, 2020	$ (776,985)	$ -	$ (121,481)	$ (898,466)
Amortization	(144,268)	-	(31,782)	(176,050)
March 31, 2021	$ (921,253)	$ -	$ (153,263)	$ (1,074,516)
Net book value				
December 31, 2020	$ 1,485,428	$ -	$ 913,630	$ 2,399,058
March 31, 2021	$ 1,525,878	$ -	$ 881,848	$ 2,407,726

During the year ended December 31, 2020, the Company incurred an impairment charge of $508,622 as a result of closing one if its Canmore stores.

During the year ended December 31, 2020, the Company acquired 100% of the assets held from the Ontario Franchise Partner for the Kingston franchise location. The business acquisition resulted in the settlement of the Franchise Inducement and the recognition of an intangible asset for the re-acquired rights, based of the future royalty and marketing fees, under the original 2019 Sale Retail agreement. As a result of the acquisition the franchise inducement was settled and the Company recorded an intangible asset for the reacquired franchise rights.

On March 31, 2021, the Company acquired all of the outstanding shares of Spirit Leaf Macleod not previously owned by it, and Spirit Leaf Macleod became a wholly owned subsidiary of the Company. The Company issued 1,425,106 units at a fair value of $0.25 per unit, which consisted of 1,425,106 common shares and 712,553 common share purchase warrants with an exercise price of $0.35 with an expiry of 2 years from issuance date. (Note 17).

9. PROPERTY AND EQUIPMENT

Cost		Computer equipment		Furniture and fixtures		Vehicles		Leasehold improvements		Total
December 31, 2019	$	125,669	$	1,385,730	$	54,563	$	3,298,354	$	4,864,316
Adjustment		(9,038)		(274,970)		-		(814,673)		(1,098,681)
Additions		65,819		889,552		-		1,983,395		2,938,766
Dispositions		(1,580)		(98,824)		-		(405,795)		(506,199)
December 31, 2020	$	180,870	$	1,901,488	$	54,563	$	4,061,281	$	6,198,202
Additions		28,536		344,328		-		913,926		1,286,790
Dispositions		-		-		(27,005)		-		(27,005)
March 31, 2021	$	209,406	$	2,245,816	$	27,558	$	4,975,207	$	7,457,987
Accumulated depreciation										
December 31, 2019	$	(65,718)	$	(468,610)	$	(15,212)	$	(1,156,038)	$	(1,705,578)
Adjustment		9,038		274,970		-		814,673		1,098,681
Depreciation		(43,903)		(218,332)		(11,805)		(515,632)		(789,672)
December 31, 2020	$	(100,583)	$	(411,972)	$	(27,017)	$	(856,997)	$	(1,396,569)
Dispositions		-		-		10,937		-		10,937
Depreciation		(13,927)		(84,030)		(859)		(170,283)		(269,099)
March 31, 2021	$	(114,510)	$	(496,002)	$	(16,939)	$	(1,027,280)	$	(1,654,731)
Net book value										
December 31, 2020	$	80,287	$	1,489,516	$	27,546	$	3,204,284	$	4,801,633
March 31, 2021	$	94,896	$	1,749,814	$	10,619	$	3,947,927	$	5,803,256

10. FRANCHISE FEE DEPOSITS

		Non-Refundable		Refundable		Total
Balance as of December 31, 2019	$	421,250	$	446,250	$	867,500
Terminated franchises		(81,250)		(96,250)		(177,500)
New franchises sold		310,000		243,750		553,750
Franchise fees earned		(297,500)		(212,500)		(510,000)
Balance as of December 31, 2020	$	352,500	$	381,250	$	733,750
Current portion, December 31, 2020					$	145,000
Long term portion, December 31, 2020					$	588,750
Terminated franchises		-		(10,000)		(10,000)
New franchises sold		70,000		30,000		100,000
Franchise fees earned		(87,500)		(71,250)		(158,750)
Balance as of March 31, 2021	$	335,000	$	330,000	$	665,000
Current portion, March 31, 2021					$	62,500
Long term portion, March 31, 2021					$	602,500

The Company has a franchise model associated with its Spirit Leaf operations. The Company charges an upfront franchise fee with refundable and non-refundable portions. Refundable portions are deposited into a segregated savings account apart from the Company's operating accounts. Franchise fee deposits are accounted for as a non-current liability, except for those initial fees expected to be earned or refunded with the next 12 months. Franchise fees are recognized at a point in time when the Company satisfies its performance obligations which is determined to be when the franchise begins operations. Performance obligations include site selection, lease assistance, and training. Funds received in advance of a franchise starting operations are recorded as franchise fee deposits.

10. FRANCHISE FEE DEPOSITS (CONTINUED)

As at March 31, 2021, the Company also had $229,000 (December 31, 2020 - $220,000) of prepaid sales deposits on account from franchises for purchase orders of millwork and inventory, which is recorded on the balance sheet in the current portion of franchise fee deposits.

11. UNREDEEMED GIFT CARD LIABILITY

The Company has outstanding $20,807 (December 31, 2020 - $40,645) of unredeemed gift card liabilities that have been purchased by customers for use at its Spirit Leaf stores.

12. DEFERRED REVENUE

		March 31, 2021		December 31, 2020
Balance, beginning	$	696,621	$	1,037,652
Recognized in cost of sales		(85,258)		(341,031)
Balance, ending	$	611,363	$	696,621
Of which are:				
Current portion	$	341,031	$	341,031
Non-current portion	$	270,332	$	355,590

In 2018, the Company closed an investment transaction with Auxly Cannabis Group Inc. ("Auxly"), pursuant to which both Auxly and the Company acquired equity interests in each other. The Company subsequently entered into an agreement with Auxly, which gives Auxly the commercial right to supply the Company up to 50% of all of its cannabis and cannabis inputs and provides for profit sharing between the parties up to January 8, 2023. Based on this agreement, the Company has determined that the difference between the fair values of the securities exchanged was to be deferred on initial recognition and is being recognized in the consolidated statement of loss and comprehensive loss on a straight-line basis over the term of the agreement.

In 2019, the Company closed an investment transaction with Tilray Inc. (“Tilray”), pursuant to which both Tilray and the Company acquired equity interests in each other. The difference between the fair values of the shares exchanged was deferred on initial recognition and is being recognized in the consolidated statement of loss and comprehensive loss on a straight-line basis over the term of the agreement.

The Company recorded the difference as a current and non-current liability in the consolidated statement of financial position and recognizes as a reduction in cost of sales in the consolidated statement of loss and comprehensive loss.

13. CONVERTIBLE DEBENTURES

		Convertible Debenture (financial liability)		Conversion feature (derivative liability)		Warrants		Total
Balance as at December 31, 2019	$	7,527,683	$	267,467	$	1,271,112	$	9,066,262
Expiration of warrants		-		-		(1,271,112)		(1,271,112)
Accretion		807,480		-		-		807,480
Revaluation		-		50,217		-		50,217
Balance as at December 31, 2020	$	8,335,163	$	317,684	$	-	$	8,652,847
Conversion to shares	$	(1,356,933)	$	(261,773)	$	-	$	(1,618,706)
Accretion		242,709		-		-	$	242,709
Revaluation		-		1,319,422		-	$	1,319,422
Balance as at March 31, 2021	$	7,220,939	$	1,375,333	$	-	$	8,596,272

13. CONVERTIBLE DEBENTURES (CONTINUED)

In 2019, the Company issued to the public 10,000 Units of 12% Senior Secured Convertible Debenture ("Convertible Debentures") for total gross proceeds of $10,000,000. Each unit consisted of one debenture in the principal amount of $1,000 and 2,000 common share purchase warrants (the "Warrant" or "Warrants"). Each Warrant entitles the holder thereof to purchase one common share of the Company at an exercise price of $0.25 for a period of eighteen (18) months following the Closing Date. The Convertible Debentures carry interest at a rate of 12% per annum from the Closing Date, payable semi-annually in arrears on the last day of June and December in each year, commencing June 30, 2020, and will mature on June 30, 2022 (the "Maturity Date"). Interest is calculated on the basis of a 360-day year composed of twelve 30-day months. The June 30, 2020 interest payment represent accrued interest for the period from and including the Closing Date to, but excluding, June 30, 2020.

As per the Convertible Debenture agreement, the outstanding principal and interest can be converted, at the option of the holder, into common shares at a fixed price of $0.25 per share before:

- **(i)** the maturity date on June 30, 2022;
- **(ii)** the date the Company calls for redemption of debentures; or
- **(iii)** the date of change of control.

The Convertible Debenture agreement also allows that on or after December 31, 2020, the Company may redeem or convert, at its option, the outstanding principal and interest balances into common shares at the conversion price of $0.25 per share, if the daily weighted average trading price of the shares remains at $0.35 or more for 20 consecutive days preceding the notice of redemption or conversion.

Upon initial recognition, the embedded conversion feature has been determined to be a derivative due to a conversion price anti-dilution clause that breaches fixed for fixed, in the event of certain events occurring. The derivative liability is revalued at each financial statement date and adjustments are reflected in the consolidated statement of loss and comprehensive loss. The conversion feature issued in connection with the Company's debenture has been valued for the consolidated financial statements using a binomial pricing model, with the following assumptions:

	March 31, 2021	December 31, 2020
Share price	$0.265	$0.14
Conversion price	$0.25	$0.25
Risk free rate	0.23%	0.20%
Volatility	114%	91%
Life	1.25 years	1.5 years

The Warrants have been presented as equity as the fixed-for-fixed criteria under IFRS is met. The fair value of the financial liability (host debt) in the amount of $8,014,081 was on inception measured using a market rate of interest of 22% for a similar unsecured debt without the conversion feature. The residual amount of $1,427,526, of the instrument after separating the derivative and host liability components was allocated to the Warrants.

The financial liability component of the Convertible Debenture (the debt host) was subsequently measured at amortized cost. The derivative liability is subsequently measured at fair value through profit and loss.

During the period ended March 31, 2021, a total face value of $1,599,000 of convertible debentures with a carrying value of $1,356,933 were converted into 6,396,000 shares at a price of $0.25 per share.

Subsequent to the period ended March 31, 2021, a total face value of $979,000 of convertible debentures were converted into 3,916,000 shares at a price of $0.25 per share.

14. CEBA LOANS

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 year ended December 31, 2020, 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 are being utilized to increase various COVID protection measures for employees and customers in the stores as well as for general working capital purposes. Subsequent to the period ended March 31, 2021, the loans were repaid in full.

15. SHARE CAPITAL

(a) Authorized:

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

(b) Issued common shares:

	Note	Number		Amount
Balance, December 31, 2019		206,236,295	$	21,007,107
Private placements	15b(i)	28,854,542		3,005,454
Shares issued for services	15b(ii)	106,383		14,894
Exercise of options	15b(iii)	390,000		39,000
Share issuance costs		-		(24,332)
Balance, December 31, 2020		235,587,220	$	24,042,123
Shares issued for services	15b(iv)	86,957		20,000
Prospectus offering	15b(ix)	41,078,000		8,036,072
Shares issued for acquisition of NCI	15b(v),17	1,425,106		257,944
Exercise of options	15b(vi)	291,250		48,500
Exercise of warrants	15b(vii)	300,000		54,492
Conversion of convertible debentures	13,15b(viii)	6,396,000		1,356,933
Conversion of derivative liability	13,15b(viii)	-		261,773
Share issuance costs		-		(1,797,128)
Balance, March 31, 2021		285,164,533	$	32,280,709

(i) During the year ended December 31, 2020, a total of 22,854,542 shares were issued at a price of $0.10 per share for gross proceeds of $2,285,454 pursuant to private placements. During the year ended December 31, 2020, a total of 6,000,000 shares were issued at a price of $0.12 per share for gross proceeds of $720,000 pursuant to a private placement.

(ii) During the year ended December 31, 2020, a total of 106,383 shares were issued at a price of $0.14 per share, for services rendered.

(iii) During the year ended December 31, 2020, a total of 390,000 shares were issued at a price of $0.10 per share, from the exercise of options.

(iv) During the period ended March 31, 2021, a total of 86,957 shares were issued at a price of $0.23 per share, as a payment of a bonus to an arms length consultant.

15. SHARE CAPITAL (CONTINUED)

(v) During the period ended March 31, 2021, a total of 1,425,106 units were issued with a fair value $0.25 per unit, pursuant to the acquisition of non-controlling interest of the Spirit Leaf Macleod store (Note 17). The units consisted of 1,425,106 common shares and 712,553 common share purchase warrants with an exercise price of $0.35 with an expiry of 2 years from issuance date. (Note 17).

(vi) During the period ended March 31, 2021,, a total of 291,250 shares were issued at prices between $0.10 and $0.20 per share, from the exercise of options.

(vii) During the period ended March 31, 2021, a total of 300,000 shares were issued at a price of $0.10 per share, from the exercise of warrants.

(viii) During the period ended March 31, 2021, a total of 6,396,000 shares were issued at a price of $0.25 per share, from the exercise of convertible debentures (Note 13).

(ix) On March 31, 2021, the Company closed a "bought deal" short form prospectus offering (the "Offering") of 41,078,000 units of the Issuer ("Units"), at a price of $0.28 per Unit, for aggregate gross proceeds of $11,501,840. Each Unit consisted of one common share of the Issuer ("Common Share") and one-half of a Common Share purchase warrant of the Issuer (each full warrant, a "Unit Warrant").

(x) On March 31, 2021, pursuant to the acquisition outlined in Note 16, the Company issued 1,425,106 common shares at a deemed price of $0.22 per share, and 712,553 common share purchase warrants with an exercise price of $0.35 with an expiry of 2 years from issuance date.

(xi) Subsequent to the period ended March 31, 2021, a total of 371,250 shares were issued at prices between $0.10 and $0.20 per share, from the exercise of options.

(xii) Subsequent to the period ended March 31, 2021, a total of 3,916,000 shares were issued at a price of $0.25 per share, from the exercise of convertible debentures (Note 13).

(c) Options

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

The following table summarizes the transactions and the balance of options outstanding and exercisable as at March 31, 2021.

	Note	Number of options	Weighted average exercise price
Balance, December 31, 2019		15,702,500	$0.14
Exercisable, December 31, 2019		7,171,250	$0.14
Issued		7,380,000	$0.16
Exercised	15b(iii)	(390,000)	$0.10
Forfeited		(1,695,000)	$0.14
Balance, December 31, 2020		20,997,500	$0.15
Exercisable, December 31, 2020		11,588,750	$0.14
Exercised	15b(vi)	(291,250)	$0.17
Forfeited		(477,500)	$0.16
Balance, March 31, 2021		20,228,750	$0.14
Exercisable, March 31, 2021		13,238,750	$0.14

During the year ended December 31, 2020, the Company granted 500,000 options with an exercise price of $0.10 per share and 6,880,000 options with an exercise price of $0.16 per share. One quarter of the stock options vest immediately and the remaining stock options granted vest one quarter on each of the first, second, and third anniversary of the grant date.

15. SHARE CAPITAL (CONTINUED)

Subsequent to the period ended March 31, 2021, a total of 371,250 options were exercised at prices between $0.10 and $0.20 per share. Subsequent to the period ended March 31, 2021, a total of 68,750 options were forfeited with exercise prices between $0.11 and $0.16 per share.

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

Risk free interest rate (%)	0.32% - 0.78%
Expected life (years)	5
Volatility rate (%)	121% - 128%
Dividend yield (%)	0%
Forfeiture rate (%)	12%

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

The following table summarizes information about the share options outstanding and exercisable as at March 31, 2021.

Options outstanding	Weighted average exercise price	Weighted average remaining term (years)	Options exercisable
7,487,500	$0.10	2.05	7,237,500
1,245,000	$0.11	3.65	672,500
6,355,000	$0.16	4.24	1,570,000
5,141,250	$0.20	2.73	3,758,750
20,228,750	$0.14	3.01	13,238,750

The share-based compensation expense recognized during the period ended March 31, 2021, for these options was $99,818 (March 31, 2020 - $45,498).

(d) Warrants

The following table summarizes the transactions and the balance of warrants outstanding and exercisable as at March 31, 2021.

	Notes	Number of warrants	Amount	Weighted average exercise price	Weighted average expiry date (years)
Balance, December 31, 2019		55,694,477	$ 3,415,982	$0.27	1.29
Exercisable, December 31, 2019		54,894,477		$0.28	0.82
Convertible debenture warrants expired	13	(20,000,000)	(1,271,112)	$0.25	
Warrants expired during year		(34,394,477)	(2,047,020)	$0.26	
Balance, December 31, 2020		1,300,000	$ 97,850	$0.10	1.73
Exercisable, December 31 2020		1,100,000		$0.10	1.73
Prospectus offering warrants issued	15b(ix)	20,539,000	3,465,768	$0.34	3.00
Broker warrants issued	15b(ix)	2,875,460	509,868	$0.28	3.00
Issued pursuant to acquisition of NCI	17	712,553	98,332	$0.35	2.00
Warrants exercised during period		(300,000)	(24,492)	$0.10	2.01
Balance, March 31, 2021		25,127,013	$ 4,147,326	$0.33	2.91
Exercisable, March 31, 2021		25,127,013		$0.33	2.91

During the year ended December 31, 2020, a total of 15,441,177 warrants with exercise prices of $0.30 per share, were cancelled by agreement with the warrant holders, and 18,953,300 warrants with exercise prices of $0.15 - $0.30 per share, expired unexercised.

15. SHARE CAPITAL (CONTINUED)

Pursuant to the Offering outlined in Note 15b(ix), on March 31, 2021, the Company closed a "bought deal" short form prospectus offering (the "Offering") of 41,078,000 units of the Issuer ("Units"). Each Unit consisted of one common share of the Issuer ("Common Share") and one-half of a Common Share purchase warrant of the Issuer (each full warrant, a "Unit Warrant"). Each Unit Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $0.34 until March 31, 2024. In connection with the Offering, the Issuer issued the underwriters 2,875,460 non-transferrable broker warrants (the "Broker Warrants"), each entitling the holder thereof to acquire one Unit at an exercise price of $0.28 until March 31, 2024.

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

	March 31, 2021	December 31, 2020
Risk free interest rate (%)	0.23%	1.33% - 1.41%
Expected life (years)	3.0	1.5 - 2.0
Volatility rate (%)	114%	118%-128%
Dividend yield (%)	0%	0%
Forfeiture rate (%)	0%	0%

The share-based compensation expense recognized during the period ended March 31, 2021 for the warrants was $nil (March 31, 2020 - $nil).

(e) Securities held in escrow

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

Pursuant to the applicable securities law, these securities have been / are being released in accordance with the following schedule:

Date of Automatic Timed Release	Amount of Escrowed Securities Released
July 30, 2018	1/10 of the escrowed securities held
January 30, 2019	1/6 of the remaining escrowed securities
July 30, 2019	1/5 of the remaining escrowed securities
January 30, 2020	1/4 of the remaining escrowed securities
July 30, 2020	1/3 of the remaining escrowed securities
January 30, 2021	1/2 of the remaining escrowed securities
July 30, 2021	The remaining escrowed securities

As at March 31, 2021, a total of 6,780,401 common shares, 528,000 options, and nil warrants remain in escrow.

16. NET LOSS PER COMMON SHARES

The calculation of basic and diluted loss per share for the period ended March 31, 2021 was based on the net loss and comprehensive loss attributable to owners of the Company of $2,388,655 (March 31, 2020 - $1,577,030) divided by the weighted average number of common shares outstanding at the period ended of 238,705,441 (March 31, 2020 - 217,792,655).

The calculation of basic and diluted loss per share for the periods ended March 31, 2021 and 2020 was based on net loss and comprehensive loss attributable to owners of the Company divided by the weighted average number of common shares outstanding at the year end as noted above.

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

17. NON-CONTROLLING INTEREST

During the periods ended, March 31, 2021 and 2020, Inner Spirit owned 50.1% of Spirit Leaf Macleod Inc., and 1010805 Alberta Ltd. ("Numberco") owned a 49.9% non-controlling interest ("NCI") and holds 49.9% of the voting rights.

	Numberco NCI Ownership	
Spirit Leaf Macleod Inc.	100%	49.9%
	March 31, 2021	December 31, 2020
Net loss and comprehensive income (loss)	$ 12,517	$ (11,160)
Total loss and comprehensive loss attributable to NCI	6,246	(5,569)
Accumulated deficit allocated to NCI	(337,188)	(331,619)
Acquired on March 31, 2021	330,942	-
Total non-controlling interest	$ -	$ (337,188)
Current assets	$ 155,244	$ 218,773
Non-current assets	259,385	252,769
Current liabilities	(23,263)	(26,398)
Non-current liabilities	(40,000)	(40,000)
Net assets	$ 351,366	$ 405,144
Cash flows used in operating activities	(34,765)	$ (486,059)
Cash flows provided by (used in) investing activities	(6,616)	268,677
Cash flows provided by financing activities	-	277,986
Net increase in cash	$ (41,381)	$ 60,604

On March 31, 2021, the Company acquired all of the outstanding shares of Spirit Leaf Macleod not previously owned by it, and Spirit Leaf Macleod became a wholly owned subsidiary of the Company. The Company issued 1,425,106 units at a fair value price of $0.25 per unit, which consisted of 1,425,106 common shares and 712,553 common share purchase warrants with an exercise price of $0.35 with an expiry of 2 years from issuance date.

As at March 31, 2021, payable of $313,523 (December 31, 2020 - $313,523) to non-controlling interest was settled during the period ended March 31, 2021 as part of the acquisition.

18. RELATED PARTY TRANSACTIONS

Key management

The Company's key management personnel have authority and responsibility for overseeing, planning, directing, and controlling the activities of the Company. Key management personnel include members of the board of directors, and executive officers. Compensation of key management personnel may include short-term and long-term benefits. Short-term benefits include salaries and consulting fees. Long-term benefits include stock options.

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

	March 31, 2021	March 31, 2020
Short-term benefits	$ 237,646	$ 152,698
Long-term benefits (*)	50,949	15,293
	$ 288,594	$ 167,991

(*) 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.

18. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions

During the period ended March 31, 2021, the Company paid $33,146 (March 31, 2020 - $27,732) in total rent and operating costs to a company related to an executive officer and director. The yearly rent was based on a fair value assessment completed by an independent appraiser.

As at March 31, 2021, there was $59,250 (December 31, 2020 - $99) of outstanding payables to related parties, that is included in accounts payable and accrued liabilities.

19. COMMITMENTS

The Company entered into 9 retail store leases during the period ended March 31, 2021, but the commencement date of these did not begin until after the period end, and as such these retail stores were not available for use during the year; therefore, they do not form a part of the leases disclosed in Note 6.

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

	March 31, 2021
2021	247,282
2022	768,670
2023	770,617
2024	778,743
Thereafter	5,033,881

20. CAPITAL RISK MANAGEMENT

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach in the period. The Company considers its shareholders' equity as capital which, as at March 31, 2021, is $13,207,527 (December 31, 2020 - $3,244,798).

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values

At March 31, 2021, 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.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

Investments are classified as level 2. During the periods ended March 31, 2021 and 2020, 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.

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

Credit risk

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

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

The accounts receivable balances totaling $1,650,131 (December 31, 2020 - $1,444,802) is net of provision for expected credit losses of $nil (December 31, 2020 - $94,776). The balance consists of receivables from Spirit Leaf's franchisees for franchisee fees, royalty, and advertisement charges and for millwork sold. The net carrying value of accounts receivable as at the year-end represents the Company's maximum exposure to credit risk.

	March 31, 2021	December 31, 2020
Current	$ 1,003,400	$ 820,135
31 – 60 days	58,327	92,864
61 – 90 days	29,175	42,992
Greater than 90 days	559,229	488,811
Accounts receivable	$ 1,650,131	$ 1,444,802

Management believes that the risk of loss on the loan to franchise partners (Note 7) 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.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations with cash.

As the Company has historically treated a portion of the franchise fee deposits as refundable, these deposits may become financial obligations at the discretion of the Company.

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

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

	Maturity			
	Within		Greater than	
As at March 31, 2021	1 year	1-5 years	5 years	Total
Accounts payables and accrued liabilities	$ 2,208,754	$ -	$ -	$ 2,208,754
Accrued debenture interest payable	242,000	-	-	242,000
Refundable franchise fee deposits	133,750	196,250	-	330,000
Lease liabilities (undiscounted cash flows)	4,401,137	16,187,397	13,694,581	34,283,115
Financial guarantee liability	-	342,765	-	342,765
Convertible debenture	-	8,401,000	-	8,401,000
	$ 6,985,641	$ 25,127,412	$ 13,694,581	$ 45,807,634

As at December 31 2020	1 year	1-5 years	5 years	Total
Accounts payables and accrued liabilities	$ 1,459,525	$ -	$ -	$ 1,459,525
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

Market risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is exposed to equity price risk, which arises from marketable securities and investments measured at air value through profit or loss ("FVTPL"). For marketable securities and investments classified as FVTPL, the impact of a 10% increase or decrease in the share price would have $14,643 change in equity.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Company's earnings or the value of its financial instruments. The objective of interest rate risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is not exposed to significant interest rate risk as its interest-bearing financial instruments carry a fixed rate of interest, except as disclosed in Note 6.

Foreign currency risk

The Company has foreign currency risk exposure in respect of the marketable securities. Where possible, the Company avoids transacting in foreign currencies thereby mitigating the risk of loss arising from foreign currency translation or exchange.

22. CHANGES IN NON-CASH WORKING CAPITAL

	March 31, 2021	March 31, 2020
Accounts receivables	(205,329)	(726,133)
Prepaid expenses and deposits	(292,233)	(469,573)
Inventory	(345,599)	173,335
Accounts payables and accrued liabilities	749,229	(449,931)
Franchise fee deposits	(73,500)	156,696
Unredeemed gift card liability	(19,838)	1,368
Change in non-cash working capital balances	$ (187,270)	$ (1,314,238)

23. PRIOR PERIOD ERROR

The Company is restating its March 31, 2020 comparative period to adjust the debenture accretion on the March 31, 2020 income statement.

The Company is restating its March 31, 2020 cash flow statement to correct classification errors in the operating and financing section for the movement in lease deposits, gain on lease and non-cash working capital balances.

The net impact to the March 31, 2020 consolidated income statement is a decrease to convertible debenture accretion by $352,146 and decrease net loss of $352,146.

The following tables summarize the effects of above.

	March 31, 2020 (as previously reported)	Adjustments	March 31, 2021 (restated)
Line items on the Consolidated Statements of Loss and Comprehensive Loss:			
Convertible debenture accretion	532,080	(352,146)	179,934
Net loss and comprehensive loss for year	(1,944,167)	352,146	(1,592,021)
Net loss and comprehensive loss attributed to:			
Owners of the Company	(1,929,176)	352,146	(1,577,030)
Line items on the Consolidated Statements of Cash Flow:			
Net loss for the year	(1,944,167)	352,146	(1,592,021)
Convertible debenture accretion	532,080	(352,146)	179,934
Gain on Leases	-	(210,000)	(210,000)
Changes in Non-cash Working Capital	(984,167)	(330,071)	(1,314,238)
Lease deposits	-	644,082	644,082