INNER SPIRIT HOLDINGS LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

The following Management's Discussion and Analysis ("MD&A") of the financial results of Inner Spirit Holdings Ltd. ("Inner Spirit" or the "Company") should be read in conjunction with the audited consolidated financial statements (the "Financial Statements") for the year ended December 31, 2018. The Financial Statements, including the comparative figures, were prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted, all dollar amounts are in Canadian dollars. Further information regarding the Company is available on SEDAR at www.sedar.com. This MD&A is dated April 30, 2019.

Forward Looking Statements

Certain statements contained within the MD&A, and in certain documents incorporated by reference into this document, constitute forward looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward looking statements. Forward looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

In particular, this MD&A contains the following forward-looking statements pertaining to, without limitation, the following: changes in general and administrative expenses; future business operations and activities and the timing thereof; the future tax liability of the Company; the estimated future contractual obligations of the Company; the future liquidity and financial capacity of the Company; its ability to fund its working capital and forecasted capital expenditures; the Company opening wholly-owned Spiritleaf-branded retail cannabis stores through its subsidiaries; the Company's strategies and objectives, both generally and in respect of its existing business and planned businesses; the Company's retail dispensary and franchise strategies; the conditionals of financial markets generally and with respect to Canadian cannabis companies; the expected demand for the Company's products; the Company's future cash requirements; and timing, pricing, completion and regulatory approval of financings.

With respect to the forward-looking statements contained in this MD&A, the Company has made assumptions regarding, among other things: the ability to raise capital; the continued availability of capital; the ability to obtain financing on acceptable terms; and the continuation of the current taxation and regulatory environment.

We believe the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be. The actual results could differ materially from those anticipated in these forward looking statements as a result of a variety of risks and factors including, but not limited to, those set forth below and elsewhere in this MD&A: counterparty credit risk; access to capital; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws; and the other factors discussed in this MD&A.

Readers are cautioned that the foregoing lists of risks and factors are not exhaustive. The forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward-looking statements contained in this document speak only as of the date of this document and the Company does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

Overview

Inner Spirit was incorporated under the *Business Corporations Act* (Alberta) (“ABCA”) on March 16, 2017. The Company was then amalgamated under the ABCA on August 31, 2017 with 2043246 Alberta Ltd., a private holding company with no active business operations, with the intent of going public through an initial public offering. The registered office of the Company is Suite 1600, 333 - 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

The Company has four 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) Watch It! Consolidated Ltd. (“Watch It!”), which is wholly-owned by the Company. All four subsidiaries were incorporated under the laws of the Province of Alberta, are headquartered in Calgary, Alberta and extra-provincially registered in the various jurisdictions in which they operate.

The Spirit Leaf division is comprised of: (i) the business of Spirit Leaf, the franchise division of the Company's cannabis business, which collects franchise fees, royalties and sells supplies to support the opening of Spiritleaf-branded franchise retail cannabis stores initially in Alberta, British Columbia, Saskatchewan, and in Ontario; (ii) the business of Spirit Leaf Macleod, a joint venture company with 101805 Alberta Ltd. that intends to open one Spiritleaf-branded retail cannabis store in Calgary, Alberta; (iii) the business of Spirit Leaf Corporate, which plans to open at least 12 corporate-owned Spiritleaf-branded retail cannabis stores in Alberta (referred to as “Spirit Leaf Division”). Spirit Leaf also operates an online business to sell cannabis consumer products and plans to develop its own cannabis branded products which it anticipates selling and distributing through the proposed corporate and franchised retail cannabis stores.

The business of Watch It! includes the marketing, sale and distribution of watches, sunglasses, watch repair services and related accessories through six wholly-owned locations, seven franchise stores and two e-commerce sites.

Subsequent Events and Proposed Transactions

Subsequent to the year ended December 31, 2018, the Company announced that through its wholly owned subsidiary Spirit Leaf Corporate Inc., it has entered into an agreement with a Spirit Leaf franchise partner to purchase the assets of three proposed cannabis retail stores. Total consideration payable for the locations was $2,000,000, of which $1,500,000 was paid through the issuance of 7,075,472 common shares of Inner Spirit at an issue price equal to $0.212 per share, as well as $250,000 in cash and a $250,000 promissory note due one year after the closing of the acquisition.

On January 14, 2019, the Company entered into an exclusivity agreement with a third -party to enter into a retail agreement (the “Retail Agreement”) in exchange for 5,000,000 Inner Spirit common shares to the third-party at a price of $0.20 per share and a signing bonus. On February 6, 2019, the Retail Agreement was entered into whereby the Company will supply the use of Spirit Leaf’s intellectual property and provide a sublease in exchange for a monthly fee based on a percentage of monthly gross sales.

On March 5, 2019, the Company entered into a secured promissory note with a third-party for $1,500,000 that matures on July 5, 2019. The promissory note bears interest at a rate per annum of 12%, compounded daily and is payable on the maturity date of the note.

Business Objectives, Milestones and Capital Spending

The Company’s business objectives, and the significant events that must occur for each such business objective to be accomplished, are as follows:

Business Objective	Milestones	Estimated Costs	Time Period
To open franchise locations in British Columbia, Alberta, Saskatchewan and Ontario.	The opening of each Sprit Leaf franchise location.	$100,000	Current – December 31, 2019
To open twelve corporate locations in Alberta	Opening of the first twelve wholly owned corporate flagship locations to commence selling cannabis.	$3,400,000	Current – December 31, 2019

The completion of the above business objectives and milestones will require additional funds to be raised.

Selected Annual Information

The following table provides a brief summary of the Company' financial operations. For more detailed information, refer to the Company's audited consolidated financial statements.

	Year Ended 31-Dec-18	Period Ended 16-Mar-17 to 31-Dec-17
Total Revenue	$ 5,791,385	$ 2,912,272
Operating loss before other expenses	$ (5,221,334)	$ (1,304,117)
Net loss and comprehensive loss	$(11,694,973)	$ (1,335,182)
Basic and diluted loss per share	$ (0.09)	$ (0.03)
Total assets	$ 11,449,669	$ 5,904,732
Total long-term liabilities	$ 2,790,784	$ 1,460,100

As the Company was incorporated on March 16, 2017, the period ending December 31, 2017 was the first year of operations, so there is no prior annual information. See "Discussion of Operations" for significant variances from the prior year.

The increase in revenue for the year ended December 31, 2018 was a result of the Company operating for the full 2018 year and due to the commencement of significant operations and revenue from the Spirit Leaf Division in the fourth quarter after legalization of cannabis. The increase in loss is a result mainly of the following:

- Impairment loss of $3.5 million for write-down of the assets and goodwill acquired in the acquisition of Watch It!.
- Unrealized loss on marketable securities of $2.1 million;
- Share-based compensation of $0.8 million; and
- Additional expenses in ramping up Spirit Leaf Division operations.

Discussion of Operations

Consolidated Operations

For the year ended December 31, 2018 (versus the period from incorporation on March 16, 2017 to December 31, 2017), total consolidated revenue was $5,791,385 (2017 – $2,912,272), consolidated cost of goods sold was $3,166,071 (2017 – $1,518,595), and the consolidated gross profit was $2,625,314 (2017 – $1,393,677). Total consolidated operating expenses were $7,846,648 (2017 – $2,697,794), consisting of general and administration of $2,201,793 (2017 – $765,901), salaries and wages of $2,917,136 (2017 – $1,053,889), occupancy costs of $1,503,824 (2017 – $451,276), depreciation and amortization of $696,857 (2017 – $131,244), sales and marketing of $527,038 (2017 – $295,484). Other consolidated expenses consisted of share-based compensation of

$843,863 (2017 – $nil), unrealized loss on marketable securities of $2,092,828 (2017 – $nil), interest of $4,990 (2017 – $36,433), and royalties of $5,040 (2017 – $58,132). Recovery of deferred taxes was $nil (2017 - $63,500). The consolidated net loss and comprehensive loss was $11,694,973 (2017 – $1,335,182).

Inner Spirit Corporate Division
For the year ended December 31, 2018 (versus the period from incorporation on March 16, 2017 to December 31, 2017), revenue from the corporate administration division of Inner Spirit was $nil (2017 - $nil). As this division manages the administration of the operating subsidiaries, it is not a revenue generating unit. Total operating expenses from this division was $1,078,798 (2017 - $761,782), consisting of general and administration of $885,293 (2017 - $481,727), salaries and benefits of $101,221 (2017 - $130,000), depreciation of $52 (2017 - $512), and sales and marketing of $92,232 (2017 - $149,543). Share-based compensation expense was $843,863 (2017 - $nil), the unrealized loss on marketable securities was $2,092,828 (2017 - $nil) and interest revenue was $3,693 (2017 – nil) for the year ended. The net loss and comprehensive loss for this division was $4,011,796 (2017 - $761,782).

Spirit Leaf Division
For the year ended December 31, 2018 (versus the period from incorporation on March 16, 2017 to December 31, 2017), total revenue from the Spirit Leaf division was $624,216 (2017 - $1,146). Total revenue was made up of retail revenue was $20,860 (2017 - $nil), royalties of $45,732 (2017 – $nil), advertising revenue of $9,147 (2017 – $nil), millwork revenue of $376,369 (2017 - $nil), franchise fees of $88,750 (2017 – $nil), and supply and other revenue of $83,358 (2017 - $1,146). There was $1,842,600 (2017 - $460,100) of franchise fee deposits received but not yet earned, which is recorded as a liability on the balance sheet. These franchise fee deposits will be recognized as revenue upon the opening of store fronts for each of the franchises sold. Cost of goods sold was $434,097 (2017 - $nil), and the gross profit was $190,119 (2017 - $1,146). Total operating expenses from the Spirit Leaf division were $3,179,463 (2017 - $214,928), consisting of general and administration of $963,451 (2017 - $126,332), salaries and wages of $1,161,427 (2017 - $nil), occupancy costs of $578,362 (2017 - $nil), depreciation of $137,914 (2017 - $3,381) and sales and marketing of $338,309 (2017 - $85,215). Interest income was $2,478 (2017 - $nil). The net loss and comprehensive loss for this division was $2,986,866 (2017 - $213,782).

Watch It! Division
For the year ended December 31, 2018 (versus the period from incorporation on March 16, 2017 to December 31, 2017), total revenue from the Watch It! division was $5,167,169 (2017 - $2,911,126) and consisted of retail revenue of $4,949,661 (2017 - $2,760,613), royalties of $159,616 (2017 - $110,606), advertising revenue of $45,197 (2017 - $29,963), and the balance from supply and other revenue of $12,695 (2017 - $9,944). Cost of goods sold was $2,731,974 (2017 - $1,518,595), and the gross profit was $2,435,195 (2017 - $1,392,531). Total operating expenses from the Watch It! division were $3,581,741 (2017 - $1,721,084), consisting of general and administration of $352,941 (2017 - $157,842), salaries and wages of $1,654,488 (2017 - $923,889), occupancy costs of $925,385 (2017 - $451,276), depreciation and amortization of $552,430 (2017 - $127,351), sales and marketing of $96,497 (2017 - $60,726). Other expenses consisted of impairment loss of $3,526,918 (2017 - $nil), interest of $11,161 (2017 - $36,433) and royalties of $5,040 (2017 - $58,132). The net loss and comprehensive loss for this division was $4,689,665 (2017 - $359,618).

Management continually evaluates the performance of the operations of the Watch It! division by reviewing the following key performance metrics:

- Revenue;
- Gross margins;
- Staff to sales ratios - Total staffing costs to sales ratio; and,
- Rent to sales ratios - Total rent costs to sales ratio.

The following is a summary of the key performance metrics for the year ended December 31, 2018:

- Revenue was higher this year versus the prior year due improving fundamentals from restructuring in the prior year and due to a full year of operations. Total revenue for Watch It! for this year was $5.17 million versus $2.91 million in the prior year.
- Gross margins of 47.1% were in line with management's expectations for the year and were not materially different than the prior year of 47.8%.

- Staff to sales ratios for the year ended was similar than the prior year. Total salaries, wages and benefits were $1.65 million (2017 - $0.92 million) on sales $5.17 million (2017 - $2.91 million), so the staff to sale ratio was 32% for the year ended December 31, 2018 (2017 – 32%).
- Rent to sales ratio for the year ended was slightly higher than the prior year due to higher lease costs. Occupancy costs were $0.93 million (2017 - $0.45 million) on sales of $5.17 million (2017 - $2.91 million), resulting in a rent to sales ratio of 18% (2017 – 16%).

Summary of Quarterly Results

Since the Company was incorporated on March 16, 2017 and was not a reporting issuer until July 20, 2018, quarterly financial statements have been prepared for only the six most recently completed quarters.

	4th Quarter 31-Dec-18	3rd Quarter 30-Sep-18	2nd Quarter 30-Jun-18	1st Quarter 31-Mar-18	4th Quarter 31-Dec-17	3rd Quarter 30-Sep-17
Revenue	$ 2,011,460	$ 1,544,779	$ 1,224,975	$ 1,010,171	$ 1,895,382	$ 1,052,481
Net loss	$ (7,437,030)	$ (940,605)	$ (1,900,412)	$ (1,410,280)	$ (381,378)	$ (373,874)
Basic loss per share	$ (0.05)	$ (0.01)	$ (0.03)	$ (0.01)	(0.01)	$ (0.01)
Diluted loss per share	(0.05)	(0.01)	(0.03)	$ (0.01)	(0.01)	(0.01)

Revenue for the 4th quarter ended December 31, 2018 was $2,011,460 (2017 - $1,895,382) which was higher than the prior quarter, due to the commencement of revenue from the Spirit Leaf Division. Net loss was $7,437,030 (2017 - $381,378). This loss was significantly higher than the prior quarters as a result of mainly the following in the 4th quarter ended December 31, 2018:

Impairment loss of $3.5 million for write-down of the assets and goodwill acquired in the acquisition of Watch It!;

- Unrealized loss on marketable securities of $1.1 million;
- Share-based compensation of $0.6 million; and
- Additional expenses in ramping up operations of the Spirit Leaf Division.

Revenue for the 3rd quarter ended September 30, 2018 was $1,544,779 (2017 - $1,052,481), which was higher than the prior quarter due to increased sales at Watch It! and the commencement of revenue from millwork from the Spirit Leaf Division as Spirit Leaf dispensaries were preparing to open in the 4th quarter of 2018. Cost of goods sold for the quarter was $910,930 (2017 - $514,157). Total operating expenses for the period were $1,822,867 (2017 - $867,736), made up of general and administration of $557,976 (2017 - $237,011), salaries and wages of $647,969 (2017 - $387,378), occupancy costs of $332,426 (2017 - $174,499), depreciation and amortization of $109,813 (2017 - $57,887), and sales and marketing of $174,683 (2017 – $10,961). Other expenses included share-based compensation of $28,949 (2017 - $nil), unrealized gain on marketable securities of $277,658 (2017 - $nil), interest of $296 (2017 - $17,580), and royalties of $nil (2017 - $26,882).

Revenue for the 2nd quarter ended June 30, 2018 was higher than the prior quarter due to improving revenue and operations from the Watch It! division. Revenue was mainly attributable to the revenue from Watch It!, which totaled $1,212,796 (2017 - $nil). Cost of goods sold for the quarter was $640,543 (2017 - $nil). Total operating expenses for the period were $1,619,507 (2017 - $290,364), made up of general and administration of $491,303 (2017 - $44,573), salaries and wages of $642,437 (2017 - $150,000), occupancy costs of 272,425 (2017 - $nil), depreciation and amortization of $78,385 (2017 – $nil), and sales and marketing of $134,957 (2017 – $95,791). Other expenses included share-based compensation of $127,790 (2017 - $nil), unrealized loss on marketable securities of $737,536 (2017 - $nil), and interest of $11 (2017 - $nil).

The larger loss in the 2nd quarter of 2018 was attributable to a number of factors:

- share-based compensation for stock options and warrants issued in the period;
- the unrealized loss on marketable securities that were received as part of the Auxly investment in the Company, for which the market price declined in the period; and
- The balance of the loss is related to the costs of operations of Spirit Leaf, where no revenue has been earned.

Revenue for the 1st quarter ended March 31, 2018 was lower for the prior quarter, as a result of the seasonality of retail business, where sales typically fall after the holiday season. Revenue was mainly attributable to the revenue from Watch It!, which totaled $980,774. Total expenses for the period were $2,420,451, of which $521,393 was cost of goods sold. The balance of expenses was made up of the following: salaries and wages of $544,937,

occupancy costs of $208,878, sales and marketing of $96,411, general and administration of $329,804, depreciation and amortization of $71,512, share-based compensation of $151,635, unrealized loss on marketable securities of $479,928, interest of $10,913, and royalties of $5,040.

The larger loss in the 1st quarter of 2018 was attributable to a number of factors:

- share-based compensation for stock options and warrants issued in the period;
- the unrealized loss on marketable securities that were received as part of an investment in the Company during that quarter, for which the shares were subject to a hold period, and the market price declined in the period;
- Watch It! had lower sales due to the seasonality of lower retail sales after the holiday season; and
- The balance of the loss is related to the costs of operations of Spirit Leaf, where no revenue has been earned.

General and Administration Expenses

The Company's general and administrative expenses for the year ended December 31, 2018 was $2,201,793 (2017 – $765,901). The general and administration expenses were significantly higher in the year due to the ramp up of operations of the Spirit Leaf division and due to higher professional fees as a result of the many corporate transactions and investments in the Company. Future general and administrative fees will likely increase as the Company ramps up operations in its Spirit Leaf Division.

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.

Liquidity

During the year ended December 31, 2018 (versus the period from incorporation on March 16, 2017 to December 31, 2017), the Company's cash flow used in operating activities was $5,958,925 (2017 – $661,665).

For the year ended December 31, 2018, the Company's cash flows provided by financing activities were $8,818,988 (2017 – $2,065,860). Cash was provided from net proceeds from issuance of share capital of $9,124,206 (2017 – $2,039,471), advances from related party of $208,779 (2017 - $nil), and non-equity transactions of $79,144 (2017 - $nil). In 2018, $593,141 was used to pay off a related party loan versus $26,389 of cash provided from a related party in 2017.

For the year ended December 31, 2018, the Company's cash flows used in investing activities were $1,637,530 (2017 - $451,140). Cash was used in investing activities for an investment in term deposit of $1,200,000 (2017 - $nil), acquisition of property and equipment of $1,362,820 (2017 - $8,798), acquisition of franchise store of $400,000 (2017 – $nil), and investment in a prepaid share subscription of $149,710 (2017 – $nil). In 2018, $1,475,000 (2017 - $30,000) in cash was provided from investments from other companies. In 2017, the acquisition of Watch It! used cash of $472,342.

Commitments and Contractual Obligations

Outlined below is a breakdown of the Company's contractual obligations.

		Payments Due by Period			
	Total	Less than 1 year	2 to 3 years	4 to 5 years	After
Accounts payable and accrued liabilites	1,294,261	1,294,261	-	-	-
Payable to related party	208,779	208,779	-	-	-
Unredeemed gift card liability	183,531	183,531	-	-	-
Lease obligations	12,494,176	2,132,201	3,786,017	3,222,813	3,353,145

As at December 31, 2018, the Company has collected $1,232,500 of franchise fee deposits as a long-term liability, which are refundable. These deposits are non-refundable, unless a lease is not signed by the Landlord and the

Franchisee and delivered to the Company by June 30, 2019. At the option of the Company they may terminate the lease agreement and any refundable initial fee less amounts payable to the Company shall be refundable. The refundable portion of the franchise fees are deposited into a savings bank account, which is segregated from the Company's operating bank accounts. These are classified as long term as repayment is at the option of the Company.

As at December 31, 2018, the company has budgeted approximately $3,500,000 to complete the build-outs of the first twelve wholly owned corporate stores, as outlined under Business Objectives, Milestones, and Capital Spending.

Off-Balance Sheet Arrangements
The Company has no off-balance sheet arrangements.

Related Parties

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 are as follows:

	Year ended December 31, 2018	Period from incorporation on March 16 to December 31, 2017
Short-term benefits	**$ 364,100**	$ 165,000
Long-term benefits (*)	**61,171**	-
	$ 425,271	$ 165,000

(*) Consists of share-based payments as the fair value of options granted to key management personnel of the Company under the Company's stock option plan

As at December 31, 2018, there was $100,000 (2017 - $5,000) of outstanding payables to related parties, that is included in accounts payable and accrued liabilities.

During the year ended December 31, 2018, the Company paid rent for office space to a company related by virtue of a common officer and director, in the amount of $43,796 (period from March 16 to December 31, 2017 - $30,565). Subsequent to year end, the Company entered into a new lease agreement effective March 1, 2019 for a term of 5 years, for $30,000 per year for the first 3 years, and $32,070 per year for the last 2 years. The yearly rent was based on a fair value assessment completed by an independent appraiser.

As at December 31, 2017, payable to related party was an interest-bearing promissory note secured over all the property of the Watch It! and due on demand which bore interest at a rate per annum of 12.5%, compounded monthly. The loan was secured by all the property of the Watch It! , pari-passu to the Royalty Agreement. During the year ended December 31, 2018, the payable to related party was paid out in full (2017 - $593,141). There was $10,875 in interest expense to the officer during the year ended December 31, 2018 (2017 - $36,330) in relation to this note.

As at December 31, 2018, payable to related party was a non-interest-bearing, unsecured, due on demand loan of $208,779 (2017 - $nil) for costs incurred for Spirit Leaf Macleod.

Outstanding Share Data
The Company is authorized to issue an unlimited number of common shares and preferred shares with no par value. As at December 31, 2018, the Company had 186,179,524 common shares for a paid in capital amount of $16,971,660, net of share issuance costs.

During the year ended December 31, 2018, the Company granted 9,125,000 options at a price of $0.10 per share to directors, officers, employees, and consultants, pursuant to the Company's stock option plan. During the year ended, 60,000 options were exercised and 80,000 were forfeited without being exercised. During the year ended December 31, 2018, the Company granted an additional 5,600,000 options at a price of $0.20 per share to directors, officers, employees, and consultants, pursuant to the Company's stock option plan. As at December 31, 2018, the Company had 14,585,000 options outstanding.

During the year ended December 31, 2018, the Company issued a total of 33,151,677 warrants with exercise prices between $0.10 and $0.30 per share. During the year ended, 250,000 warrants were exercised. The warrants were granted for consulting services, security for leases, and as part of units issued pursuant to the Company's initial public offering, the transaction with Sugarbud, the transaction with Newstrike, and the transaction with Auxly. As at December 31, 2018, the Company had 32,901,677 warrants outstanding.

The following details the share capital structure as of the date of this MD&A.

	Expiry Date		Exercise Price	Number
Common shares				193,394,996
Stock options	February 28, 2023	$	0.10	8,355,000
Stock options	December 10, 2023	$	0.20	5,540,000
Warrants	December 31, 2019	$	0.10	150,000
Warrants	December 31, 2019	$	0.10	100,000
Warrants	April 3, 2023	$	0.10	500,000
Warrants	April 3, 2023	$	0.10	300,000
Warrants	May 11, 2020	$	0.10	100,000
Warrants	May 11, 2020	$	0.15	600,000
Warrants	June 22, 2020	$	0.30	3,750,000
Warrants	June 22, 2020	$	0.30	661,765
Warrants	August 1, 2020	$	0.30	12,500,000
Warrants	August 1, 2020	$	0.30	2,500,000
Warrants	August 1, 2020	$	0.30	3,529,412
Warrants	August 1, 2020	$	0.30	7,500,000
Warrants	August 28, 2020	$	0.28	360,500
Warrants	July 23, 2020	$	0.30	100,000
Warrants	December 10, 2020	$	0.30	100,000
Warrants	December 10, 2020	$	0.20	150,000
Fully diluted				240,191,673

The majority of the options and warrants outstanding have vesting provisions that have not yet been met.

Recently Adopted Accounting Pronouncements

IFRS 9, Financial Instruments

The International Accounting Standards Board issued IFRS 9 - Financial Instruments that introduces new requirements for classifying and measuring financial instruments. The standard is effective for fiscal years beginning on or after January 1, 2018. IFRS 9 affects the classification and measurement of financial assets and financial liabilities and the recognition of expected credit losses. The Company adopted IFRS 9 effective January 1, 2018 on a retrospective basis. The prior year comparative information has not been adjusted with respect to the adoption of IFRS 9's classification and measurement requirements as the adoption of IFRS 9 did not result in any material changes.

There were no adjustments to the carrying amounts of financial instruments as a result of the measurement classification category changes from IAS 39 to IFRS 9.

Consistent with the requirements of IFRS 9, the Company assesses the lifetime expected credit losses on an ongoing basis and updates its assumptions, if and when required.

a) Financial assets - Pursuant to IFRS 9, the classification of financial assets is based on the Company's assessment of its business model for holding financial assets. The classification categories are as follows:
   - Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
   - Financial assets at fair value through other comprehensive income: assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
   - Financial assets at fair value through profit or loss: assets that do not meet the criteria for amortized cost or fair value through other comprehensive income.

   Financial assets measured at amortized cost are measured at cost using the effective interest method. The amortized cost is reduced by impairment losses at an amount equal to the lifetime expected credit losses that result from all possible default events over the expected life of the financial instrument. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the Interim Consolidated Statements of Loss and Comprehensive Loss. When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

   Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

b) Financial liabilities - The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:
   - Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the interim consolidated statements of income (loss) and comprehensive income (loss).
   - Financial liabilities measured at fair value through profit or loss: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the interim consolidated statements of income (loss) and comprehensive income (loss).

   Financial liabilities are derecognized when the obligation in discharged, cancelled or expired.

   The following table summarizes the classification impacts of the adoption of IFRS 9:

Financial Instrument	Previous classification under IAS 39	New Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Short-term deposits	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Marketable securities	Held for trading	FVTPL
Accounts payable & accrued liabilities	Other liabilities	Amortized cost
Refundable franchise fee deposits	Other liabilities	Amortized cost
Payable to related party	Other liabilities	Amortized cost
Royalty debt	Other liabilities	Amortized cost

IFRS 15, Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, "Revenue from contracts with customers". IFRS 15 replaced existing standards and interpretations on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018. The standard outlines a single comprehensive model for entities for revenue recognition arising from contracts with customers.

The Company has completed its evaluation of the impact of IFRS 15 on its Financial Statements. The Company's practices of revenue recognition are unchanged upon adoption of this standard, therefore, the adoption of IFRS 15 did not result in a material impact to the Financial Statements. The Company has elected to apply the standard on a modified retrospective basis.

Under this approach, the 2017 comparative period was not restated. There was no cumulative transitional adjustment to the opening retained earnings balance required.

Accounting Pronouncements Not Yet Adopted

The IASB issued IFRS 16, Leases, in January 2016. The new standard replaces IAS 17, Leases. Under the new standard, more leases will be recognized on the statement of financial position for lessees, with the exception of leases with a term not greater than 12 months and "small value" leases. Lease accounting for lessors remains substantially the same as existing guidance.

The standard is effective for years beginning on or after January 1, 2019, IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively. The Company plans to use the modified retrospective approach for its adoption of IFRS 16 effective January 1, 2019.

At December 31, 2018, the Company's IFRS 16 transition project consists of three key phases: project scoping, impact analysis, and implementation phase. The Company anticipates the adoption of IFRS 16 will have a material impact on the consolidated statement of financial position primarily due to the capitalization of real estate leases which are currently recognized as operating leases in the consolidated statement of loss and comprehensive loss.

On initial adoption, the Company intends to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of low dollar value; and,
- Use hindsight in determining the lease term where a contract contains terms to extend or terminate the lease.

A process for identifying potential leases under IFRS 16 has been established and the Company is currently implementing changes to policies, internal controls, information systems, and business and accounting processes.

Critical Accounting Estimates

A summary of the Company's significant accounting policies is contained in Note 2 to the audited financial statements as at and for the year ended December 31, 2018. 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 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 assumptions about the future 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 ("ECL"). The Company measures loss allowances based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

Inventory
Inventory is carried and the lower of cost and net realizable value; in estimating net realizable value, the Company makes estimates related to obsolescence, future selling prices, seasonality, customer behavior, and fluctuations in inventory levels.

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

Impairment testing of PP&E, goodwill, and indefinite life intangible assets
PP&E, goodwill and indefinite life intangible assets are assessed for impairment at least annually, and whenever there is an indication that the asset may be impaired. The Company determines the fair value of its CGU groupings and indefinite life intangible assets using discounted cash flow models corroborated by other valuation techniques.

The process of determining these fair values 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.

Depreciation
The Financial Statements include estimates of the useful economic life of property and equipment. Due to varying assumptions required to be made with regards to useful life of these assets, the depreciation recorded by management is based on their best estimate and in this regard may be significantly different from those determined based on future operational results.

Amortization of intangible assets
The Financial Statements include estimates of the useful economic life of intangible assets. Due to varying assumptions required to be made with regards to future recoverability of these assets, the amortization recorded by management is based on their best estimate and in this regard may be significantly different from those determined based on future operational results.

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 requires 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.

Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to credit risks, market risks, and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The Company does not have any hedges in place.

a) 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, and accounts receivable. All of the Company's cash includes petty cash, store cash floats, and cash held at a financial institution which is a Canadian Chartered in which management believes that the risk of loss is minimal. The accounts receivable balances consist of an ongoing account held with PayPal, Spirit Leaf franchise fee deposits outstanding, and December royalty revenue receivable from the franchises, which are considered reputable companies. All amounts are current.

Management assesses quarterly if there should be any impairment of the financial assets of the Company. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of cash and receivables.

b) 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 investments measured at fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). For such investments classified as at FVTOCI and FVTPL, the impact of a 10% increase in the share price would have increased equity by $119,911 after tax. An equal change in the opposite direction would have decreased equity by $119,911 after tax.

Fair Value of Financial Instruments

At December 31, 2018, the Company's financial instruments consist of cash, accounts receivable, marketable securities, accounts payable and accrued liabilities. The fair values of cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term maturity of these instruments. Marketable securities have been marked to market.

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. During the years ended December 31, 2018 and 2017, there were no transfers of amounts between levels.

c) Liquidity Risk
Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, cost overruns on capital projects and regulations relating to prices, taxes, royalties, and availability of markets. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing.

Risk Factors

Due to the nature of Inner Spirit's business, the legal and economic climate in which it operates and its present stage of development, Inner Spirit is subject to significant risks. The risks presented below should not be considered to be exhaustive and may not be all of the risks that Inner Spirit may face. Additional risks and uncertainties not presently known to Inner Spirit or that Inner Spirit currently considers immaterial may also impair the business and operations of the Company. If any of the following or other risks occur, the Company's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that event, the trading price of Inner Spirit common shares could decline, and investors could lose all or part of their investment. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

The Company is required to comply concurrently with federal, provincial, and local laws in each jurisdiction where it operates

Various federal, provincial and local laws govern the Company's business in the jurisdictions in which it operates or proposes to operate, including laws and regulations relating to health and safety, conduct of operations and the management, transportation, storage and disposal of our products and of certain material used in our operations. Compliance with these laws and regulations requires concurrent compliance with complex federal, provincial and local laws. Compliance with these laws and regulations requires the investment of significant financial and managerial resources, and a determination that the Company is not in compliance with these laws and regulations could harm its brand image and business. Moreover, it is impossible for the Company to predict the cost or effect of such laws, regulations or guidelines upon our future operations. Changes to these laws or regulations could negatively affect the Company's competitive position within the cannabis industry and the markets in which the Company operates, and there is no assurance that various levels of government in the jurisdictions in which the Company operates will not pass legislation or regulation that adversely impacts our business.

Competition in the recreational cannabis retail market

There is potential that the Company will face intense competition from numerous independent dispensaries and other franchise dispensary companies, some of which can be expected to have greater financial resources, market access and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the proposed business, financial condition and results of operations of the Company. Because of the preliminary stage of the recreational cannabis market in which the Company operates, the Company expects to face additional competition from new entrants. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the proposed business, financial condition and operating results of the Company. The Company also competes with other recreational cannabis retail companies in the recruitment and retention of qualified employees.

Laws and regulations are subject to unforeseen changes
The Company's operations are subject to various laws, regulations and guidelines relating to the marketing, acquisition, manufacture, packaging/labelling, management, transportation, storage, sale and disposal of cannabis, including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. If any changes to such laws, regulations and guidelines occur (and in Canada the laws and regulations are currently changing at a rapid pace), which are matters beyond the Company's control, the Company may incur significant costs in complying with such changes or may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operations.

Shelf life inventory
The Company holds finished goods in inventory and such inventory has a shelf life. Finished goods in inventory may include herbal cannabis and cannabis oil products. Even though it is the intention of the Company's management to review the amount of inventory on hand in the future, write-down of inventory may still be required. Any such write-down of inventory could have a material adverse effect on the Company's proposed business, financial condition, and results of operations.

Product liability
Due to the proposed operations of Spirit Leaf, a distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced or distributed (but not produced) by the Company caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the proposed business, financial condition and operating results of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

Potential future acquisitions and/or strategic alliances may have an adverse effect on the Company's ability to manage its business
The Company may acquire technologies, businesses or assets that are complementary to its business and/or strategic alliances in order to leverage its position in the recreational cannabis retail market. Future acquisitions or strategic alliances would expose the Company to potential risks, including risks associated with the integration of new technologies, businesses and personnel, unforeseen or hidden liabilities, the diversion of management attention and resources from its existing business, and the inability to generate sufficient revenues to offset the costs and expenses of acquisitions or strategic alliances. Any difficulties encountered in the acquisition and strategic alliance process may have an adverse effect on the Company's ability to manage its business.

The Company's limited operating history makes evaluating its business and prospects difficult
The Company has a limited operating history on which to base an evaluation of its business, financial performance and prospects. As such, the Company's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development. As the Company is in an early stage and is introducing new products, the Company's revenues may be materially affected by the decisions, including timing decisions, of a relatively consolidated customer base. The Company has had limited experience in addressing the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving industries such as the recreational cannabis retail industry. There can be no assurance that the Company will be successful in addressing these risks, and the failure to do so in any one area could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

Competition in the consumer products market
Watch It! conducts business under highly competitive conditions in the North American retail merchandising industry. Watch It! has numerous and varied competitors at national and local levels, including conventional and specialty department stores, other specialty stores, category killers, mass merchants, value retailers, discounters, and internet and mail-order retailers. Some of these competitors have greater financial resources available to them, and as a result, may be able to devote greater resources to sourcing, selling or promoting their merchandise. Competition may intensify as new competitors enter into the markets in which Watch It! operates, and/or as our competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment of brands and merchandise, advertising, marketing, promotional activities, price, quality, service, the shopping experience and environment, location, reputation and credit availability. A number of different competitive factors could have a material adverse effect on Watch It!'s and the Company's results of operations and financial condition, including: (i) increased operational efficiencies of competitors; (ii) competitive pricing strategies, including deep discount pricing by a broad range of retailers during periods of poor consumer confidence or economic instability; (iii) expansion of product offerings by existing competitors; (iv) entry by new competitors into markets in which Watch It! operates; and (v) adoption by existing competitors of innovative retail sales methods. If the Company cannot compete effectively, its results of operations could be materially and adversely affected, resulting in lower sales, lower gross margin and/or higher operating expenses. Although the Company has a strategy to improve the performance of Watch It!, there are no assurances that this strategy will be successful.

Reliance on franchisees
The Company anticipates receiving a significant portion of its operating revenue in the form of franchise royalty payments. Failure to achieve adequate levels of collection from the Company'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 the Company's franchisees will be independent operators and as such will be subject to many factors which the Company cannot control. Should economic conditions worsen, some franchisees could become unable to pay royalties and rent.

Negative cash flow from operations
The Company had negative operating cash flow for the financial year ended December 31, 2018 and 2017. To the extent that the Company has negative operating cash flow in future periods, it may need to allocate a portion of its cash reserves to fund such negative cash flow. The Company may also be required to raise additional funds through the issuance of equity or debt securities. There can be no assurance that the Company will be able to generate a positive cash flow from its operations, that additional capital or other types of financing will be available when needed or that these financings will be on terms favourable to the Company.

Price volatility of publicly traded securities
In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the shares of the Company will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company's shares will be affected by such volatility. An active public market for the Company's shares might not develop or be sustained. If an active public market for the Company's shares does not develop, the liquidity of a shareholder's investment may be limited, and the share price may decline.

Management of growth
The Company may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

No assurance of profitability
The Company cannot give assurances that it will not incur net losses in the future. The limited operating history makes it difficult to predict future operating results. The Company is subject to the risks inherent in the operation

of a new business enterprise in an emerging and uncertain business sector, and there can be no assurance that the Company will be able to successfully address these risks.

Dividends
The Company has not paid dividends to shareholders in the past and does not anticipate paying dividends in the foreseeable future. The Company expects to retain its earnings to finance growth, and where appropriate, to pay down debt if any debt is incurred by the Company.

Dilution
Issuances of additional securities at or near the current share price of the Company would result in significant dilution of the equity interests of any persons who are holders of common shares.

Temporary Suspension in Alberta
Distribution of recreational cannabis in the Province of Alberta is carried out through a hybrid retail model under the oversight of the Alberta Gaming, Liquor and Cannabis Commission (the "**AGLC**"). On November 21, 2018, the AGLC temporarily suspended accepting new cannabis retail license applications and issuing any additional cannabis retail licenses (the "**Temporary Suspension**"). While the Temporary Suspension remains in place, neither Spirit Leaf Corporate nor Spirit Leaf Macleod nor the franchisees of Spirit Leaf are able to submit applications for, or in the case of cannabis retail license applications that were in progress prior to the enactment of the Temporary Suspension, potentially receive final approval for, cannabis retail licenses to operate retail cannabis stores in the Province of Alberta. As at the date hereof, the AGLC has not yet indicated when it anticipates lifting the Temporary Suspension, if at all. To date, during the Temporary Suspension, the AGLC approved two batches of cannabis retail license applications that were in progress prior to the enactment of the Temporary Suspension.

There is no assurance that the Temporary Suspension will be lifted by the AGLC, or, if the Temporary Suspension is lifted by the AGLC, that all, or any, of Spirit Leaf Corporate, Spirit Leaf Macleod and the franchisees of Spirit Leaf will be able to obtain cannabis retail licenses from the AGLC, which would have a material adverse effect on the Company.

Ontario Prohibition
On November 14, 2018, the Government of Ontario passed regulations (the "**Ontario Regulations**") under the Ontario Cannabis Act, regulating the licensing of privately owned retail cannabis stores in the Province of Ontario. Under the Ontario Regulations, a corporation is not eligible to be issued a retail operator license if more than 9.9% of the corporation is owned or controlled, directly or indirectly, by one or more licensed producers or their affiliates ("**Licensed Producers**"). As at the date hereof, more than 9.9% of the issued and outstanding common shares of the Company are owned and controlled, directly or indirectly, by one or more Licensed Producers or their affiliates. Consequently, the Company and its subsidiaries, including Spirit Leaf Corporate, are currently prohibited from obtaining retail operator licenses in the Province of Ontario under the Ontario Regulations. Furthermore, certain municipalities in Ontario exercised their one time option to opt-out of having cannabis retail stores in their communities. To the extent that certain municipalities opted-out in potential in any municipalities that the Company has identified for entry, the Company will need to redirect its strategy and resources to find alternate retail locations.

There is no assurance that the Company's intended retail and franchising strategy in Ontario complies with or is permitted under the Ontario Regulations and the inability for the Company to execute on its intended objectives to establish a retail presence in Ontario could have a material adverse effect on the Company's business, operations and financial condition.

ADDITIONAL INFORMATION

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