FORM 5

QUARTERLY LISTING STATEMENT

Name of Listed Issuer: Inner Spirit Holdings Ltd. (the "Issuer").

Trading Symbol: ISH, ISH.WT, ISH.DB

This Quarterly Listing Statement must be posted on or before the day on which the Issuer's unaudited interim financial statements are to be filed under the *Securities* Act, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer's first, second and third fiscal quarters. This statement is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

General Instructions

(a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.

(b) The term "Issuer" includes the Listed Issuer and any of its subsidiaries.

(c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

SCHEDULE A: FINANCIAL STATEMENTS

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

The Issuer's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018 are attached hereto as Appendix "A".

SCHEDULE B: SUPPLEMENTARY INFORMATION

The supplementary information set out below must be provided when not included in Schedule A.

1. Related party transactions

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

(a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.

(b) A description of the transaction(s), including those for which no amount has been recorded.

(c) The recorded amount of the transactions classified by financial statement category.

(d) The amounts due to or from Related Persons and the terms and conditions relating thereto.

(e) Contractual obligations with Related Persons, separate from other contractual obligations.

(f) Contingencies involving Related Persons, separate from other contingencies.

Please refer to Note 8 – Related Party Transactions in the Issuer's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018, which are attached hereto as Appendix "A".

2. Summary of securities issued and options granted during the period.

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

(a) summary of securities issued during the period,

For a summary of the securities issued during the interim period ended June 30, 2019, please refer to Note 11 – Share Capital and Note 15 – Debentures in the Issuer's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018, which are attached hereto as Appendix "A".

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number	Price	Total Proceeds	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid
April 25, 2019	Common Shares	Exercise of Options	20,000	$0.10	$2,000	Cash	Employee	Nil
May 8, 2019	Common Shares	Exercise of Options	30,000	$0.10	$3,000	Cash	Employee	Nil
May 17, 2019	Common Shares	Exercise of Options	45,000	$0.10	$4,500	Cash	Employee	Nil
May 24, 2019	Convertible Debentures	Public Offering	9,270	$1,000	$9,270,000	Cash	N/A	$522,100 plus Compensation Options
May 24, 2019	Warrants	Public Offering	18,540,000	N/A	N/A	Issued with Convertible Debentures	N/A	Nil
May 24, 2019	Compensation Options	Public Offering	2,088,400	N/A	N/A	Services – Agents' compensation for Public Offering	Agents for Public Offering	Nil
June 5, 2019	Common Shares	Private Placement	5,000,000	$0.20	N/A	Issued pursuant to retail partnership	Not Related Person	Nil
June 7, 2019	Convertible Debentures	Public Offering	730	$1,000	$730,000	Cash	N/A	$51,100 plus Compensation Options
June 7, 2019	Warrants	Public Offering	1,460,000	N/A	N/A	Issued with Convertible Debentures	N/A	Nil
June 7, 2019	Compensation Options	Public Offering	204,400	N/A	N/A	Services – Agents' compensation for	Agents for Public Offering	Nil

						Public Offering		
June 12, 2019	Common Shares	Private Placement	7,443,799	$0.20	N/A	Class 2 common stock in the capital of Tilray, Inc.	Strategic Partner – Tilray, Inc.	Nil
June 19, 2019	Common Shares	Exercise of Options	50,000	$0.10	$5,000	Cash	Employee	Nil
June 21, 2019	Common Shares	Exercise of Options	22,500	$0.10	$2,250	Cash	Employee	Nil
June 24, 2019	Common Shares	Private Placement	125,000	$0.20	N/A	Issued pursuant to bonus payable to recipient	Related Person – Christopher Gulka	Nil
June 24, 2019	Common Shares	Private Placement	125,000	$0.20	N/A	Issued pursuant to bonus payable to recipient	Consultant	Nil

(b) summary of options granted during the period,

For a summary of the options granted during the interim period ended June 30, 2019, please refer to Note 11(d) – Share Capital – Options in the Issuer's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018, which are attached hereto as Appendix "A".

Date	Number	Name of Optionee if Related Person and relationship	Generic description of other Optionees	Exercise Price	Expiry Date	Market Price on date of Grant
June 1, 2019	140,000	N/A	Employee	$0.20	June 1, 2024	$0.20
June 1, 2019	140,000	N/A	Employee	$0.20	June 1, 2024	$0.20
June 24, 2019	20,000	N/A	Employee	$0.20	June 24, 2024	$0.195
June 24, 2019	100,000	Michael Ginevsky, Officer	N/A	$0.20	June 24, 2024	$0.195

3. Summary of securities as at the end of the reporting period.

Provide the following information in tabular format as at the end of the reporting period:

(a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,

(b) number and recorded value for shares issued and outstanding,

(c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and

(d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

Please refer to Note 11 – Share Capital and Note 15 – Debentures in the Issuer's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018, which are attached hereto as Appendix "A".

4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.

Name	**Position**
Darren Bondar	President, CEO, Director
Christopher Gulka	CFO, Director
David Margolus	Director
Craig Steinberg	Director
Jeffrey Tung	Director
Larry Wosk	Director
Michael Ginevsky	Corporate Secretary

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

Provide Interim MD&A if required by applicable securities legislation.

The Issuer's management's discussion and analysis for the three and six months ended June 30, 2019 is attached hereto as Appendix "B".

Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.

2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.

3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).

4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated August 29, 2019.

Christopher Gulka
Name of Director or Senior Officer

"Christopher Gulka"
Signature

CFO, Director
Official Capacity

Issuer Details Name of Issuer **Inner Spirit Holdings Ltd.**	For Quarter Ended **June 30, 2019**	Date of Report YY/MM/D **19/08/29**
Issuer Address **#102, 5740 2nd Street S.W.**		
City/Province/Postal Code **Calgary/Alberta/T2H 1Y6**	Issuer Fax No. **N/A**	Issuer Telephone No. **(403) 930-9300**
Contact Name **Christopher Gulka**	Contact Position **CFO**	Contact Telephone No. **(403) 262-2803**
Contact Email Address **cgulka@workingcapitalcorp.com**	Web Site Address **www.innerspiritholdings.com**	

APPENDIX "A"

(*Attached*)

Inner Spirit Holdings Ltd.

Interim Condensed Consolidated Financial Statements
(Unaudited)
For the three and six months ended June 30, 2019 and 2018
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL RESULTS

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed financial statements of the Company have been prepared in accordance with IFRS and are the responsibility of the Company's management. The interim condensed consolidated financial statements and related financial reporting matters have been reviewed and approved by the Audit Committee.

The Company's independent auditor has not performed a review of these interim condensed financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim condensed consolidated financial statements by an entity's auditor.

Inner Spirit Holdings Ltd.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

(Expressed in Canadian Dollars)

	Note		June 30 2019 (Unaudited)		December 31 2018 (Audited)
ASSETS					
Current					
Cash		$	5,820,985	$	2,175,588
Short-term deposits			-		1,200,000
Accounts receivable			1,316,517		578,842
Marketable securities	4		2,081,570		1,262,928
Prepaid investment subscription			-		149,710
Prepaid expenses and deposits			187,067		208,344
Inventory	5		2,514,501		2,622,152
Total current assets			11,920,640		8,197,564
Non-current					
Property and equipment	6		2,377,897		1,349,216
Lease deposits			1,019,243		1,126,639
Marketable securities			-		62,257
Loan to franchise partners			586,667		-
Right of use assets			10,119,744		-
Store Permits	7		3,116,019		713,993
Franchise inducements			1,251,850		-
Total assets		$	30,392,060	$	11,449,669
LIABILITIES AND SHAREHOLDERS' DEFICIT					
Current					
Accounts payable and accrued liabilities		$	675,937	$	1,294,261
Short term note payable			250,000		-
Current portion of lease liabilities			1,692,479		-
Franchise fee deposits	9		85,000		53,750
Deferred Revenue	4		330,677		303,121
Payable to related party	8		208,508		208,779
Unredeemed gift card liability			164,956		183,531
Total current liabilities			3,407,557		2,043,442
Non-current					
Franchise fee deposits	9		1,495,100		1,788,850
Lease liabilities			8,838,921		-
Convertible debenture	15		7,540,415		-
Deferred revenue	4		836,596		1,001,934
Total liabilities			22,118,589		4,834,226
Shareholders' Equity					
Share capital	11		21,050,410		16,971,660
Contributed surplus	11		780,248		725,137
Warrants	11		3,533,664		1,948,801
Convertible debentures	15		1,038,238		-
Deficit			(18,059,238)		(12,984,037)
Total Shareholders' equity of parent			8,343,322		6,661,561
Non-controlling interest			(69,851)		(46,118)
Total Shareholders' equity			8,273,471		6,615,443
Total liabilities and shareholders' equity		$	30,392,060	$	11,449,669

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

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
(Expressed in Canadian Dollars)
For the Three and Six Months Ended June 30, 2019 and 2018

	Note	Three months ended June 30		Six months ended June 30	
		2019	2018	**2019**	2018
Revenue					
Retail revenue		**$ 959,967**	$ 1,160,282	**$ 1,747,823**	$ 2,092,107
Royalties		**258,680**	42,483	**375,298**	77,595
Advertising		**57,316**	10,621	**83,383**	19,399
Millwork		**312,315**	-	**503,487**	-
Franchise fee		**57,500**	-	**101,250**	-
Supply and other revenue		**130,103**	11,589	**217,735**	46,045
Total revenue		**1,775,881**	1,224,975	**3,028,976**	2,235,146
Cost of goods sold	5	**833,347**	640,543	**1,416,166**	1,161,936
Gross profit		**942,534**	584,432	**1,612,810**	1,073,210
Operating expenses					
General and administrative		**1,670,729**	491,303	**2,604,659**	821,107
Salaries, wages, and benefits		**884,946**	642,437	**1,665,798**	1,187,374
Occupancy costs		**504,389**	272,425	**698,341**	481,303
Depreciation and amortization	6,7	**111,491**	78,385	**190,938**	149,897
Right of use asset depreciation		**309,715**	-	**798,044**	-
Sales and marketing		**170,090**	134,957	**256,063**	231,368
Total operating expenses		**3,651,360**	1,619,507	**6,213,843**	2,871,049
Operating loss before other expenses		**(2,708,826)**	(1,035,075)	**(4,601,033)**	(1,797,839)
Share-based compensation		**55,111**	127,790	**55,111**	279,425
Unrealized loss (gain) on marketable securities	4	**(208,991)**	737,536	**(281,528)**	1,217,464
Interest expense		**254,737**	11	**439,892**	10,924
Royalty expense		**-**	-	**-**	5,040
Loss before income taxes		**$ (2,809,683)**	$ (1,900,412)	**$ (4,814,508)**	$ (3,310,692)
Recovery of deferred taxes		**-**	-	**-**	-
Net loss and comprehensive loss		**$ (2,809,683)**	$ (1,900,412)	**$ (4,814,508)**	$ (3,310,692)
Total net loss and comprehensive loss attributed to					
Common shareholders		**(2,798,757)**	(1,900,412)	**(4,790,775)**	(3,310,692)
Non-controlling interest		**(10,926)**	-	**(23,733)**	-
Attributed net loss and comprehensive loss		**(2,809,683)**	(1,900,412)	**(4,814,508)**	(3,310,692)
Net loss per share - Basic and diluted		**$ (0.02)**	$ (0.03)	**$ (0.03)**	$ (0.05)
Weighted average shares outstanding - Basic and diluted		**148,679,895**	66,277,597	**148,679,895**	66,277,597

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

Interim Condensed Consolidated Statements of Changes in Shareholders’ Equity (Unaudited)

(Expressed in Canadian Dollars)

For the Six Months Ended June 30, 2019 and 2018

		Share Capital		Share	Contributed	Convertible			
	Note	Number	Amount	Subscriptions	Surplus	Debentures	Warrants	Deficit	Total
Balance, December 31, 2017		65,946,105	-	$ 3,420,871	$ 1,149,556	$ -	$ -	$ -	$ (1,335,182)
Share subscriptions	11	11,495,560		1,149,556	(1,149,556)	-	-	-	-
Private placements	11	13,117,159		1,186,727	-	-	-	-	-
Debt conversion	11	10,000,000		1,000,000	-	-	-	-	-
Investment by Auxly	4,11	15,000,000		1,500,000	-	-	-	-	-
Auxly anti-dilution right	4,11	1,500,000		150,000	-	-	-	-	-
Investment by Sugarbud	11	7,500,000		160,895	-	-	-	1,250,000	-
Auxly anti-dilution right	4,11	1,323,529		(33,697)	-	-	-	198,529	-
Share issuance costs	11	-		(33,697)	-	-	-	-	-
Share-based compensation	11	-		-	-	-	(281,528)	-	-
Net and comprehensive loss		-		-	-	-	-	-	-
Balance, June 30, 2018		125,882,353	-	$ 8,500,655	$ -	$ -	$ (281,528)	$ 1,448,529	$ (1,335,182)
Balance, December 31, 2018		186,179,524	$16,971,660	$ -	$ 725,137	$ -	$1,948,801	$(12,984,037)	$ 6,661,561
Franchisee acquisitions	**11b(xv)**	**7,075,472**	**1,500,000**	**-**	**-**		**-**	**-**	**1,500,000**
Exercise of options	**11b(xvi)**	**287,500**	**28,750**	**-**	**-**		**-**	**-**	**28,750**
IFRS 16 Adjustment								**(284,426)**	**(284,426)**
Bonus	**11b(xvii)**	**250,000**	**50,000**						**50,000**
Franchise inducement	**11b(xviii)**	**5,000,000**	**1,000,000**						**1,000,000**
Tilray equity swap	**11b(xix)**	**7,443,799**	**1,500,000**						**1,500,000**
Share based compensation	**11d(iii)**				**55,111**				**55,111**
Debenture Issuance						**1,038,238**	**1,584,863**		**2,623,101**
Net and comprehensive loss								**(4,814,508)**	**(4,814,508)**
Non controlling interest		**-**	**-**	**-**	**-**		**-**	**23,733**	**23,733**
Balance, June 30, 2019		**206,236,295**	**$21,050,410**	**$ -**	**$ 780,248**	**$ 1,038,238**	**$3,533,664**	**$(18,059,238)**	**$ 8,343,322**

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

Inner Spirit Holdings Ltd.
Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in Canadian Dollars)
For the Six Months Ended June 30, 2019 and 2018

Six months ended		June 30	
	Note	**2019**	2018
Cash provided by (used in) the following activities:			
Operating			
Net loss for the period		$ **(4,814,508)**	$ (3,310,692)
Items not affecting cash			
Amortization and depreciation	6,7	**190,938**	149,897.00
Depreciation of right-of-use asset		**798,044**	-
Share-based compensation	11	**55,111**	279,425
Unrealized loss (gain) on marketable securities	4	**(281,528)**	1,217,464.00
Changes in non cash working capital balances:			
Change in accounts receivable		**(737,675)**	57,561
Change in prepaids and deposits		**21,277**	(158,358)
Change in inventory	5	**107,651**	(478,598)
Change in accounts payable and accrued liabilities		**(618,324)**	255,976
Change in short term note payable		**250,000**	-
Accretion of lease liability		**843,947**	-
Change in unredeemed gift card liability		**(18,575)**	82,533
Change in lease deposits		**107,396**	(77,168)
Change in deferred revenue		**137,782**	-
Franchise fee deposits	9	**262,500**	424,000
Cash flow used in operating activities		**(3,695,964)**	(1,557,960)
Financing			
Private placements	11	**-**	2,882,153
Principal portion of lease payments		**(611,482)**	-
Issuance of share capital, net of issuance costs	11	**4,078,750**	-
Issuance of convertible debentures	15	**10,000,000**	-
Warrant issuances	11	**-**	219,407
Payable to shareholder	8	**(271)**	(593,141)
Cash flow provided by financing activities		**13,466,997**	2,508,419
Investing			
Acquisition of property and equipment	6	**(1,028,681)**	(442,334)
Acquisition of Tilray shares	4	**(1,500,000)**	-
Franchise inducement		**(1,251,850)**	-
Acquisition of store permits		**(2,402,026)**	-
Acquisition of franchise store permits	7	**(1,143,079)**	-
Cash flow used in financing activities		**(7,325,636)**	(442,334)
Change in cash		**2,445,397**	508,125
Cash, beginning of period		**3,375,588**	953,055
Cash, end of period		$ **5,820,985**	$ 1,461,180

The accompanying notes are an integral part of these unaudited 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 has four subsidiaries, Spirit Leaf Inc., Spirit Leaf Corporate Inc., and Spirit Leaf Macleod Inc. (collectively, "Spirit Leaf") and Watch It! Consolidated Ltd. ("Watch It!"). Spirit Leaf Inc.'s primary business is the current operation, planned opening and ongoing support of franchise retail cannabis stores in Canadian jurisdictions where the private sale of recreational cannabis is permitted. Spirit Leaf Corporate Inc.'s primary business is the current operation and planned opening of wholly-owned corporate retail cannabis stores. Spirit Leaf Macleod Inc.'s primary business is the current operation of a corporate retail cannabis store. Watch It!'s primary business is the on-going support of licensed retail watch stores and the sale of watches, sunglass and related accessories through corporate retail outlets across Canada and through its websites.

The Company's registered office is located at Suite 1600 Dome Tower, 333 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

These 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 three months ended June 30, 2019, the Company had negative cash flows from operating activities, incurred a net loss of $2,809,683 (2018 - $1,900,412) and, as of that date, the Company has an accumulated deficit of $18,059,238 (December 31, 2018 - $12,984,037). The Company will require additional financing in order to conduct its planned business operations, meet its ongoing levels of corporate overhead and discharge its liabilities and commitments as they come due, all of which may cast significant doubt about the Company's ability to continue as a going concern.

Management's view is that the success of the Company is dependent upon financing its capital requirements and achieving profitable operations. The Company has been successful in completing an initial public offering and completing private placements from public investors and strategic partners, who continue to support the Company.

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

2. BASIS OF PRESENTATION

Statement of compliance

These Financial Statements have been prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended December 31, 2018.

These Financial Statements have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting". These Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited financial statements and notes thereto in the Company's December 31, 2018 audited financial statements available on SEDAR at www.sedar.com.

These Financial Statements were approved and authorized by the Board of Directors on August 27, 2019.

Basis of measurement

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

2. BASIS OF PRESENTATION (CONTINUED)

Basis of consolidation

The Financial Statements include the ownership percentages of Inner Spirit's subsidiaries:

Entity Name	Ownership Percentage
Spirit Leaf Inc.	100%
Spirit Leaf Corporate Inc.	100%
Spirit Leaf Macleod Inc.	50.1%
Watch It! Consolidated Ltd.	100%

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

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This control is evidenced through, among other things, owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. The financial statements of the subsidiary are included in the Financial Statements of the Company from the date that control commences until the date that control ceases.

Non-controlling interest

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

Non-controlling interest consists of the non-controlling interest at the date of the original acquisition plus the non-controlling interest share of changes in equity since the date of acquisition. The Company owns 50.1% of the common shares outstanding of its subsidiary, Spirit Leaf Macleod Inc. These consolidated Financial Statements include 100% of the assets and liabilities related to Spirit Leaf Macleod Inc., and include a non-controlling interest representing 49.9% of Spirit Leaf Macleod Inc.'s assets and liabilities not owned by the Company.

Functional currency

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

Significant accounting judgments and estimates

The preparation of these Financial Statements requires management to make judgments, estimates and assumptions that affect the application of 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:

2. BASIS OF PRESENTATION (CONTINUED)

Significant accounting judgments and estimates (continued)

Going concern

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

Expected credit losses

- The Company's accounts receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses ("ECLs"). The Company measures 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.

2. BASIS OF PRESENTATION (CONTINUED)

Significant accounting judgments and estimates (continued)

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.

3.SIGNIFICANT ACCOUNTING POLICIES

Recently adopted accounting pronouncements

IFRS 9, Financial Instruments

IFRS 9 introduces new requirements for classifying and measuring financial instruments. The standard became 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.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model for calculating impairment. The new impairment model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The Company applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivable.

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 and accrued liabilities	Other liabilities	Amortized cost
Refundable franchise fee deposits	Other liabilities	Amortized cost
Payable to shareholder	Other liabilities	Amortized cost
Royalty debt	Other liabilities	Amortized cost

There were no adjustments to the carrying amounts of financial instruments as a result of the measurement classification category changes from International Accounting Standard 39- Financial Instruments: Recognition and Measurement ("IAS 39") to IFRS 9.

3.SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 15, Revenue from contracts with customers
On May 28, 2014 the IASB issued IFRS 15. The standard replaces IAS 11, Construction Contracts, IAS 18, Revenue, and related interpretations. 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.

IFRS 16, Leases
On January 13, 2016, the IASB published a new standard, IFRS 16, "Leases". The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted but only if the entity is also applying IFRS 15, "Revenue from contracts with customers". Under the new standard, a lessee recognizes a right-of-use asset and a lease liability. The right-of- use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest.

Effective January 1, 2019, the Company adopted IFRS 16, Leases ("IFRS 16"), which supersedes previous accounting standards for leases, including IAS 17, Leases ("IAS 17"), and IFRIC 4, Determining whether an arrangement contains a lease ("IFRIC 4"). IFRS 16 introduces a single lessee accounting model, unless the underlying asset is of low value, and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on our Condensed Interim Consolidated Statements of Financial Position, as well as a decrease to operating expenses (for the removal of base rent expense for leases), an increase to depreciation (due to the depreciation of the right-of-use asset), and an increase to finance costs (due to accretion of the lease liability). Leasehold inducements, store closure costs and average rent adjustments (which were previously included in accounts payable and accrued liabilities) and onerous lease provisions are no longer recognized as separate liabilities and are included in the calculation of right-of-use assets under IFRS 16.

The Company adopted IFRS 16 using the modified retrospective method and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The cumulative effect of initially applying the new standard is recognized as an adjustment to the opening deficit within the shareholders' equity balance as at January 1, 2019.

Adjustments recognized on adoption of IFRS 16
On adoption of IFRS 16, the Company recognized lease assets and liabilities in relation to leases previously classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the related incremental borrowing rate as of January 1, 2019. The weighted-average rate applied is 7%. The associated right-of-use assets were measured as if the standard has been applied since the commencement date, discounted using the incremental borrowing rates as of January 1, 2019 adjusted for the effects of provisions for onerous leases.

Interest expense on lease obligations for the period ended June 30, 2019 was $102,350. The expense relating to variable lease payments not included in the measurement of lease obligations was $322,753. This consists of variable lease payments for operating costs, property taxes, and insurance. Expenses relating to short-term leases were $81,636 and expenses relating to leases of low value assets were not material.

3.SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A reconciliation of lease commitments as at January 1, 2019, outlining the effect of the transition to IFRS 16 is outlined below.

January 1, 2019	
Operating lease commitments disclosed as at December 31, 2018	12,494,176
Discounted using the incremental borrowing rate at January 1, 2019	7%
Lease liability recognized as at January 1, 2019	10,493,094
Of which are:	
Current lease liabilities	1,518,596
Non-current lease liabilities	8,974,498

Below is a summary of the activity related to our right-of-use assets for the six-month period ended June 30, 2019:

	Six months ended June 30, 2019
Right-of-use assets, beginning of period	$10,302,721
Net additions	615,067
Right-of-use assets depreciation	(798,044)
Right-of-use assets, end of period	**$10,119,744**

Leasing activities
The Company leases properties such as various retail stores and offices. Lease contracts are typically made for fixed periods of 1 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Accounting policy
At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, we assess whether:

- The contract involves the use of an identified asset;
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

Lessee accounting
Effective January 1, 2019, leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3.SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease payments included in the measurement of the lease liability include the net present value of the following:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantee;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used. The incremental borrowing rate is the rate that the lessee would have to pay to borrow at prevailing interest rates, market precedents and the Company's specific credit spread, on similar terms and security.

Right-of-use assets are initially measured at cost, comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

The right-of-use assets are typically depreciated on a straight-line basis over the lease term. The lease term consists of:

- The non-cancellable period of the lease;
- Periods covered by options to extend the lease, where we are reasonably certain to exercise the option; and
- Periods covered by options to terminate the lease, where we are reasonably certain not to exercise the option.

If the Company expects to obtain ownership of the leased asset at the end of the lease, we depreciate the right of-use asset over the underlying asset's estimated useful life. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Use of Estimates and Judgments

Estimates
The Company estimates the incremental borrowing rate used to measure our lease liability for each lease contract. This includes estimation in determining the asset-specific security impact. There is also estimation uncertainty arising from certain leases containing variable lease terms that are linked to operational results or an index or rate.

Judgments
The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as store profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the lease will be extended. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs, which affects this assessment and that is within the control of the lessee.

3.SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Practical expedients applied
In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the Company has elected to use a single discount rate to a portfolio of leases with reasonably similar underlying characteristics;
- the Company has elected to exclude initial direct costs incurred in obtaining leases in the measurement of the right-of-use asset on transition;
- the Company has elected to use hindsight to determine the lease term where the lease contracts contain options to extend or terminate the lease;
- the Company has elected to rely on an onerous lease assessment as of December 31, 2018, as an alternative to performing an impairment review as at January 1, 2019; and
- the Company has elected not to account for leases for which the lease term ends within 12 months of January 1, 2019 as short-term leases or leases that meet the low-value exemption.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and IFRIC 4.

Significant estimates and judgments
The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from those estimates. In preparing these Financial Statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2018, with the exception of the new significant estimates and judgments related to IFRS 16.

Future accounting pronouncements issued but not yet applied
At the date of authorization of these Financial Statements, certain new standards, amendments and interpretations to existing IFRS standards have been published but are not yet effective and have not been adopted early by the Company. Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's Financial Statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's Financial Statements.

4. MARKETABLE SECURITIES

i) On February 6, 2018, the Company issued 15,000,000 common shares at $0.10 per share to Auxly Cannabis Group Inc., formerly Cannabis Wheaton Income Corp. ("Auxly"), in consideration for Auxly: (i) paying to the Company the sum of $350,000; (ii) issuing to the Company 674,418 common shares in the capital of Auxly ("Auxly Shares"); and (iii) issuing to the Company 1,250,000 warrants ("Auxly Warrants") to purchase Auxly Shares at an exercise price of $2.53 per share for a period of two (2) years, vesting on a performance-based schedule triggered by the opening of a pre-determined number of future Spirit Leaf locations. The agreement with Auxly also provides an anti-dilution right (the "Auxly Anti-Dilution Right"), allowing Auxly to maintain its ownership percentage in the Company's voting securities in the event that the Company issues equity securities in the capital of the Company until July 31, 2018. The Auxly Anti-Dilution Right ceased to be effective following the Company's initial public offering on July 31, 2018 (the "IPO"). Also, as part of the agreement between the Company and Auxly, the Company is required to allocate up to 50% of its franchise and corporate retail cannabis stores' floor space for Auxly cannabis products.

4. MARKETABLE SECURITIES (CONTINUNED)

As at February 6, 2018, the Auxly Warrants were valued using the Black Scholes model, with the following assumptions, (a) risk free interest rate of 1.80%, and (b) stock price volatility of 110%.

The Company has allocated $1,305,055 of the investment in the Company as deferred revenue, which represents the difference between the fair value of consideration received and the fair value of the Company's shares transferred to Auxly.

As at June 30, 2019, a portion of this deferred revenue has been recognized, since the Company entered into an Irrevocable Commercial Rights Agreement with Auxly on January 31, 2019. The agreement between the Company and Auxly gives Auxly the commercial right to supply the Company up to 50% of all of its cannabis and cannabis inputs, and provides for profit sharing between the parties up to January 8, 2023. Based on their agreement, the Company has determined to recognize the deferred revenue straight line over the agreement terms and has therefore recorded $330,677 as a current liability on the condensed consolidated statement of financial position and $137,782 ($82,669 in Q2 2019 and $55,113 in Q1 2019) has been recognized as revenue on the condensed consolidated income statement.

During the period ended June 30, 2019, the Company sold 674,418 Auxly Shares for gross proceeds of $536,899. As at June 30, 2019, the Auxly Warrants were marked down to fair market value based on the closing price of Auxly Shares on that date. The Auxly Warrants were marked down to fair market value based on the Black Scholes model using with the following assumptions, (a) risk free interest rate of 1.56%, and (b) stock price volatility of 93.50%.

	Auxly Shares	Auxly Warrants	Total
Book value, December 31, 2017	$ -	$ -	$ -
Issued for common shares	1,267,906	1,187,149	2,455,055
Book value, December 31, 2018	$ 1,267,906	$ 1,187,149	$ 2,455,055
Unrealized loss	(654,186)	(1,050,503)	(1,704,689)
Fair Market Value, December 31, 2018	613,720	136,646	750,366
Current portion, December 31, 2018	613,720	109,317	723,037
Dispositions	(536,899)	-	(536,899)
Realized loss	(76,821)	-	(76,821)
Unrealized loss	-	(102,234)	(102,234)
Fair Market Value, June 30, 2019	**-**	**34,412**	**34,412**
Current portion	**$ -**	**$ 34,412**	**$ 34,412**

ii) On July 31, 2018 the Company closed its investment transaction with Newstrike Brands Ltd. ("Newstrike"), pursuant to which both Newstrike and the Company acquired equity interests in each other. Newstrike made an aggregate investment in the Company valued at $2.25 million, comprised of: (a) $1,125,000 in cash; (ii) 1,250,000 common shares in the capital of Newstrike ("Newstrike Shares"), issued at closing at a price of $0.90; and (iii) 1,125,000 warrants ("Newstrike Warrants") to purchase Newstrike Shares at an exercise price of $0.99 per share for a term of 24 months, vesting on a performance-based schedule triggered by the opening of a pre-determined number of future Spirit Leaf locations.

In consideration for Newstrike's investment in Inner Spirit, Inner Spirit issued Newstrike 15,000,000 units of the Company ("Newstrike Units") at a deemed price of $0.15 per Newstrike Unit. Each Newstrike Unit was comprised of one common share of the Company and one-half of a common share purchase warrant, exercisable at $0.30 per share for a period of two (2) years following the date of issuance. The Company recorded these equity instruments at the fair value of consideration received.

4. MARKETABLE SECURITIES (CONTINUNED)

As at July 31, 2018, the Newstrike warrants were valued using the Black Scholes model, with the following assumptions, (a) risk free interest rate of 2.05%, and (b) stock price volatility of 139%.

During the period ended June 30, 2019, the Company sold 1,250,000 Newstrike Shares for gross proceeds of $637,956. During the period ended June 30, 2019, Newstrike announced that it has obtained a final court order from the Ontario Superior Court of Justice approving the plan of arrangement under the *Business Corporations Act* (Ontario), in which HEXO Corp. ("HEXO") would acquire all of Newstrike's issued and outstanding common shares by way of plan of arrangement under the *Business Corporations Act* (Ontario) (the "Arrangement"). Pursuant to the Arrangement, holders of common shares of Newstrike received 0.06332 shares of HEXO for each common share of Newstrike held. Based on the conversion into HEXO warrants, Inner Spirit would hold 71,235 HEXO warrants with an exercise price of $15.63 with similar vesting terms as the Newstrike Warrants.

The Newstrike Warrants were marked down to fair market value based on the Black Scholes model with the following assumptions, (a) risk free interest rate of 1.56%, (b) stock price volatility of 91% and the closing Newstrike Share price.

	Newstrike Shares	Newstrike Warrants	Total
Fair market value, July 31, 2018	$ 637,500	$ 325,458	$ 962,958
Unrealized loss	(150,000)	(238,139)	(388,139)
Fair Market Value, December 31, 2018	487,500	87,319	574,819
Current portion	$ 487,500	$ 52,319	$ 539,819
Dispositions	(637,956)	-	(637,956)
Realized gain	150,456	-	150,456
Unrealized gain	-	82,093	82,093
Fair Market Value, June 30, 2019	**-**	**169,412**	**169,412**
Current portion	**$ -**	**$ 169,412**	**$ 169,412**

iii) During the year ended December 31, 2018, the Company made a prepaid subscription of US$110,000 ($149,710 Cdn.) in an investment in Hightimes Holding Corp. ("Hightimes"). Subsequent to the period to the period ended June 30, 2019, the shares in Hightimes were received by the Company.

iv) On June 13, 2019 the Company closed its investment transaction with Tilray Inc. ("Tilray"), pursuant to which both Tilray and the Company acquired equity interests in each other. Tilray made an investment in the Company valued at $1.5 million comprised of 28,361 common shares in the capital of Tilray ("Tilray Shares") issued at a closing price of US$43.34 (CDN$52.89).

In consideration for Tilray's investment in Inner Spirit, Inner Spirit issued Tilray 7,443,799 common shares of the Company at a deemed price of $0.2015 per common share.

	Tilray Shares
Fair Market Value, December 31, 2018	$ -
Acquisitions	$ 1,500,000
Dispositions	-
Unrealized gain	228,036
Fair Market Value, June 30, 2019	1,728,036
Current portion	$ 1,728,036

5. INVENTORY

	June 30, 2019	December 31, 2018
Watch it! merchandise	**$888,456**	**$939,916**
Spirit Leaf merchandise	**589,055**	**265,196**
Millwork	**1,036,990**	**1,417,040**
	$2,514,501	**$2,622,152**

Included in cost of sales for the year ended are inventory write-downs for damaged inventory and inventory shrinkage in the amount of $nil (December 31, 2018 - $86,834).

Inventory costs included in cost of sales:

	3 months ended June 30, 2019	3 months ended June 30, 2018
Expensed inventories Watch it!	**$**488,203	**$640,543**
Expensed inventories Spirit Leaf	50,954	-
Expensed inventories millwork	294,190	-
	$833,347	**$640,543**

6. PROPERTY AND EQUIPMENT

Cost	Computer Equipment	Furniture and Fixtures	Vehicle	Leasehold Improvements	Total
December 31, 2018	$ 59,293	$ 489,343	$ 27,557	$ 921,343	$ 1,497,536
Additions (Dispositions)	**2,792**	**265,766**	**27,005**	**924,056**	**1,219,619**
June 30, 2019	**$ 62,085**	**$ 755,109**	**$ 54,562**	**$ 1,845,399**	**$ 2,717,155**
Accumulated depreciation					
December 31, 2018	$ (20,084)	$ (49,635)	$ (4,134)	$ (74,467)	$ (148,320)
Depreciation for the period	**$ (11,322)**	**$ (57,469)**	**$ (5,539)**	**$ (116,608)**	**$ (190,938)**
June 30, 2019	**$ (31,406)**	**$ (107,104)**	**$ (9,673)**	**$ (191,075)**	**$ (339,258)**
Net book value					
December 31, 2018	$ 39,209	$ 439,708	$ 23,423	$ 846,876	$ 1,349,216
June 30, 2019	**$ 30,679**	**$ 648,005**	**$ 44,889**	**$ 1,654,324**	**$ 2,377,897**

7. GOODWILL AND INTANGIBLE ASSETS

Cost		Goodwill		Franchise Agreement		Trademarks		Store Permits		Total
December 31, 2018	$	2,078,018	$	500,000	$	530,000	$	713,993	$	3,822,011
Acquired during the year		-		-		-		2,402,026		2,502,026
June 30, 2019	**$**	**2,078,018**	**$**	**500,000**	**$**	**530,000**	**$**	**3,116,019**	**$**	**6,224,037**
Accumulated amortization										
December 31, 2018	$	(2,078,018)	$	(500,000)	$	(530,000)	$	-	$	(3,083,018)
Amortization for the period		-		-		-		-		-
June 30, 2019	**$**	**(2,078,018)**	**$**	**(500,000)**	**$**	**(530,000)**	**$**	**-**	**$**	**(3,108,018)**
Net book value										
December 31, 2018	$	-	$	-	$	-	$	713,993	$	713,993
June 30, 2019	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**3,116,019**	**$**	**3,116,019**

During 2018, management assessed whether indicators of impairment existed and concluded indicators of impairment existed on the Watch It! CGUs, as a result of continuing losses and therefore an impairment test was performed. As a result, the Company recorded a $3,526,918 impairment charge allocated to property and equipment of $493,900, intangible asset of $955,000, and goodwill of $2,078,018 relating to the Watch it! CGUs.

The recoverable amount of the Watch it! CGUs was determined based on an adjusted net asset method which is an acceptable method under the fair value less cost of disposal methodology ("FVLCD"). Due to the cash flow forecasts projecting continuing negative cash flows, there is no basis for which to prepare an income approach to calculate the recoverable amount of the CGUs under the value-in-use methodology. A change of 10% to the assumptions used would not result in a change to the amount of impairment recorded.

8. RELATED PARTY TRANSACTIONS

Key management and director compensation

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:

		3 months ended June 30, 2019		3 months ended June 30, 2018
Short-term benefits	**$**	**101,380**	$	66,000
Long-term benefits (*)		**-**		-
	$	**101,380**	$	66,000

(*) 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 June 30, 2019, there was $nil (December 31, 2018 - $100,000) of outstanding payables to related parties, that is included in accounts payable and accrued liabilities.

During the three months ended June 30, 2019, the Company paid $7,500 (June 30, 2018 -$11,379) in rent for office space to a company related to the Company by virtue of a common executive officer and director. During the same period, the Company entered into a new lease agreement with the related company in respect of the office space, effective March 1, 2019, for a term of 5 years. Pursuant to the new lease agreement, the rent payable by the Company to the related company will be $30,000 per year for the first three years of the lease, and $32,070 per year for the last two years. The yearly rent was based on a fair value assessment completed by an independent appraiser.

8. RELATED PARTY TRANSACTIONS (CONTINUED)

During the three months ended June 30, 2019, the Company issued 125,000 common shares, at a deemed value of $25,000, to the chief financial officer and director of the Company as a bonus in recognition of such individual in connection with the Debenture Financing.

As at June 30, 2019, payable to related party was a non-interest-bearing, unsecured, due on demand loan of $208,508 (December 31, 2018- $208,779) for costs incurred for Spirit Leaf Macleod Inc.

9. FRANCHISE FEE DEPOSITS

The Company has a franchise model associated with its cannabis operations. The Company charges a franchise fee of $25,000 for the first location and $12,500 for each additional location. For franchise agreements entered into before June 30, 2018, the franchisee was required to pay as follows: (i) $15,000 upon signing the franchise agreement (2017 - $5,000 upon signing the agreement and $10,000 by December 31, 2017) and (ii) $10,000 by June 30, 2018. The franchisee was required to pay for each additional location as follows (i) $8,750 upon signing the Franchise Agreement and (ii) $3,750 by June 30, 2018. For Franchise Agreements entered into after June 30, 2018, the entire fee was due upon signing. For those franchisees that signed agreements in 2017, the franchisee was able to invest a portion of the franchise fee into common shares of the Company.

Non-Refundable

Franchise Agreements dated before September 30, 2018 provided that $5,000 of the franchise fee was non-refundable. Franchise Agreements dated after September 30, 2018 provide that $10,000 of the franchise fee is non-refundable.

Refundable

The remaining $15,000 initial deposit is 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 June 30 2019, this amount is accounted for as a non-current liability, except for the initial fees expected to be earned or refunded within the next 12 months of $85,000 (December 31, 2018 - $53,750).

		Receivable	Non-Refundable		Refundable		Earned	Total
December 31, 2018	**$**	340,250	693,600	$	897,500	$	(88,750)	1,842,600
Terminated franchises		(113,750)	(2,500)		(82,500)		(32,500)	(231,250)
Terminated Ontario for Redisclosures		-	(155,000)		(260,000)		-	(415,000)
Ontario Redisclosures		390,000	-		-		-	390,000
New franchises sold		62,500						62,500
Store openings			30,000		(30,000)		(68,750)	(68,750)
Payments received		(62,500)	23,750		38,750		-	-
June 30, 2019	$	**616,500**	**589,850**	**$**	**563,750**	**$**	**(190,000)**	**1,580,100**
Current portion								85,000
Long term portion								1,495,100

As at June 30, 2019, there was an aggregate of $616,500 (December 31, 2018- $340,250) owing on the last payment by the franchisees. As the Company has the unconditional right to payment it has been included in franchise fee deposits.

10. COMMITMENTS

Leases

The Company leases several retail outlets under operating leases expiring between 2019 and 2028, some of which are subleased for the full amount of the lease payments and some of which are used for the operations of its corporate stores. The Company also guarantees leases for several franchised retail outlets. If the franchisees defaulted 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.

The Company has entered into and provided a covenant for various non-cancellable operating lease agreements. These lease agreements expire between December 31, 2019 and May 31, 2028.

As at June 30, 2019, the minimum annual lease payments for corporately operated locations are expected to be as follows:

		Watch It!		Spirit Leaf
2019	$	260,450	$	1,368,582
2020	$	412,589	$	1,990,389
2021	$	137,654	$	1,964,883
2022	$	16,981	$	1,992,351
2023	$	-	$	1,894,467
Thereafter	$	-	$	4,026,701

As at June 30, 2019, the minimum annual lease payments for franchise operated locations where the Company or its subsidiaries either sub-leased, assigned or provided a covenant for its franchisees are expected to be as follows. Payments are made directly to the landlord and the lease payment would only revert to the Company if a franchisee defaulted on their obligations under the terms of the sub-lease or lease.

		Watch It!		Spirit Leaf
2019	$	276,612	$	1,142,784
2020	$	514,109	$	1,393,571
2021	$	477,703	$	1,426,434
2022	$	439,640	$	1,418,460
2023	$	319,740	$	1,407,886
Thereafter	$	583,980	$	1,078,597

11. 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, 2017		65,946,105	$	3,420,871
Private placements	11b(i,v)	23,553,895		2,355,390
Debt conversion	11b(ii)	10,000,000		1,000,000
Initial public offering	11b(viii)	25,000,000		2,974,320
Corporate investments	11b(iii,iv,vi,vii,ix,x,xii)	59,776,190		7,513,093
Franchisee acquisitions	11b (xi)	1,593,334		465,000
Warrant exercise	11b(xiii)	250,000		37,500
Option exercise	11b(xiv)	60,000		11,032
Share issuance costs				(805,546)
Balance, December 31, 2018		186,179,524	$	16,971,660
Franchisee acquisitions	**11b (xv)**	**7,075,472**		**1,500,000**
Option exercise	**11b(xvi)**	**287,500**		**28,750**
Shares issued for bonuses	**11b(xvii)**	**250,000**		**50,000**
Franchise inducement	**11b(xviii)**	**5,000,000**		**1,000,000**
Tilray investment	**11b(xix)**	**7,443,799**		**1,500,000**
Balance, June 30, 2019		**206,236,295**	**$**	**21,050,410**

i. On January 18, 2018, and February 5, 2018, the Company completed a private placement by issuing 17,553,895 common shares at a price of $0.10 per share for gross proceeds of $1,755,390. Of these total proceeds, $1,149,556 was received prior to year-end and was recorded as share subscriptions.

ii. On January 18, 2018, the Company issued 10,000,000 common shares at a price of $0.10 to Grenville Strategic Royalty Corp. in connection with the termination of a security convertible royalty purchase agreement between Grenville Strategic Royalty Corp. and Watch It!.

iii. On February 6, 2018, the Company issued 15,000,000 common shares to Auxly at a price of $0.10 per share pursuant to the investment agreement entered into with Auxly (Note 4(i)).

iv. On February 6, 2018 and March 27, 2018, the Company issued a total of 2,558,824 common shares to Auxly at $0.10 per share for cash consideration of $255,882 pursuant to the Auxly Anti-Dilution Right (Note 4(i)). On March 27, 2018, the Company completed a private placement by issuing 6,000,000 common shares at a price of $0.10 for gross proceeds of $600,000.

v. On June 22, 2018, the Company issued 7,500,0000 units at a price of $0.15 per unit to Sugarbud Craft Growers Corp. for $1,125,000 in cash. Each unit consisted of one common share and one-half of one common share purchase warrant exercisable at $0.30 per share until June 22, 2020, which was valued at $237,227 (Note 11(e)).

vi. On June 22, 2018, pursuant to the exercise of the Auxly Anti-Dilution Right (Note 4(i)), the Company issued 1,323,529 units at a price of $0.15 per unit for cash consideration of $198,529. Each unit consisted of one common share and one-half of one common share purchase warrant exercisable at $0.30 per share until June 22, 2020, which was valued at $41,864 (Note 11(e)).

vii. On July 31, 2018 the Company completed its IPO, issuing 25,000,000 units at a price of $0.15 per unit for gross proceeds of $3,750,000. Each unit consisted of one common share in the capital of the Company and one-half of one common share purchase exercisable at $0.30 per share until July 31 2020, which was valued at $775,680 (Note 11(e)).

11. SHARE CAPITAL (CONTINUED)

viii. On July 31, 2018 the Company issued Newstrike 15,000,000 units of the Company with a fair value of $2,087,958 pursuant to their investment agreement (Note 4(ii)). Each unit consisted of one common share of the Company and one-half of a common share purchase warrant, exercisable at $0.30 per share until July 31, 2020, which was valued at $465,408 (Note 11(e)).

ix. On July 31, 2018, the Company issued 4,411,765 units in a private placement along with 2,647,059 units pursuant to the exercise of the Auxly Anti-Dilution right (Note 4(i)) at a price of $0.15 per unit, for gross proceeds of $1,058,823. Each unit consisted of one common share of the Company and one-half of a common share purchase warrant, exercisable at $0.30 per share until July 31, 2020, which was valued at $218,602 (Note 11(e)).

x. On September 24, 2018, and October 26, 2018 the Company, issued 1,333,334 and 160,000 common shares, at a price of $0.30 and 0.25 per share, respectively for the purchase of the assets of two proposed retail cannabis stores. The Company also issued 100,000 common shares to its Jasper franchise partner to terminate their franchise agreement at a price of 0.25 per share.

xi. On December 10, 2018 the Company issued 11,335,013 common shares at a price of $0.20 per share for gross proceeds of $2,250,000 pursuant to an investment agreement among the Company, Spirit Leaf Inc., Tilray, Inc. and High Park Holdings Ltd.

xii. During the year ended December 31, 2018, a total of 250,000 common shares were issued at a price of $0.10 per share pursuant to warrant exercises. The fair value of these warrants of $12,500 was transferred from contributed surplus to share capital.

xiii. During the year ended December 31, 2018, a total of 60,000 shares were issued at a price of $0.10 per share pursuant to option exercises. The fair value of these options of $5,032 was transferred from contributed surplus to share capital.

xiv. During the period ended March 31, 2019, the Company purchased the assets of three proposed retail cannabis stores for total consideration of $2,000,000, of which $1,500,000 was paid through the issuance of 7,075,472 common shares of the Company at an issue price equal to $0.212 per share, $250,000 was paid in cash, and $250,000 was paid through a promissory note due one year after the closing of the acquisition.

xv. During the period ended June 30, 2019, a total of 287,500 shares were issued at a price of $0.10 per share pursuant to option exercises.

xvi. During the period ended June 30, 2019 a total of 250,000 shares were issued at a price of $0.20 per share.

xvii. During the period ended June 30, 2019 a total of 5,000,000 shares were issued at a price of $0.20 per share as an inducement for a business partnership in Kingston.

xviii. During the period ended June 30, 2019 a total of 7,443,799 shares were issued to Tilray Inc. pursuant to an investment agreement between the company and Tilray.

(c) Shares held in escrow

In conjunction with the Company's IPO, an aggregate of 38,143,853 common shares were deposited in escrow pursuant to applicable securities law, to be released as follows based on the following terms:

- 10% on the date the Company's securities are listed on a Canadian exchange;
- 15% on the date that is 6 months following the listing date;
- 15% on the date that is 12 months following listing date;
- 15% on the date that is 18 months following the listing date;
- 15% on the date that is 24 months following the listing date;
- 15% on the date that is 30 months following the listing date; and
- 15% on the date that is 36 months following the listing date.

As at June 30, 2019, 9,535,963 common shares had been released.

11. SHARE CAPITAL (CONTINUED)

(d) Options

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

As at June 30, 2019, the following options are outstanding.

		Number of Options	Weighted Average Exercise Price
Balance, December 31, 2017	Note	-	$ -
Issued during year		14,725,000	$ 0.14
Exercised during year	11b(xii)	(60,000)	$ 0.10
Forfeited during year		(80,000)	$ 0.10
Balance, December 31, 2018		14,585,000	$ 0.14
Exercisable, end of year		3,541,250	$ 0.14
Issued during period	**11d(iii)**	**400,000**	**$ 0.20**
Exercised during period	**11b(xv)**	**(287,500)**	**$ 0.10**
Forfeited during period		**(600,000)**	**$ 0.12**
Balance, June 30, 2019		**14,097,500**	**$ 0.14**
Exercisable, end of period		**5,415,000**	**$ 0.13**

i) On February 28, 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. One fourth of the stock options vest immediately and the remaining stock options granted vest one fourth on each of the first, second, and third anniversary of the grant date. The forfeiture rates are based on historical data and managements estimates. The fair value of the options granted is estimated as at the grant date using the Black-Scholes option pricing model. The following assumptions were used in the Black Scholes model (a) risk free interest rate of 1.94%, (b) share price volatility of 123%, (c) forfeiture rate 0.88%, and (d) 5 years as expected life of options.

ii) On December 10, 2018, the Company granted 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. One fourth of the stock options vest immediately and the remaining stock options granted vest one fourth on each of the first, second, and third anniversary of the grant date. The forfeiture rates are based on historical data and managements estimates. The fair value of the options granted is estimated as at the grant date using the Black-Scholes option pricing model. The following assumptions were used in the Black Scholes model (a) risk free interest rate of 1.93%, (b) share price volatility of 109%, (c) forfeiture rate 0.88%, and (c) 5 years as expected life of options.

iii) In June 2019, the Company granted 400,000 options at a price of $0.20 per share to directors, officers, employees, and consultants, pursuant to the Company's stock option plan. One fourth of the stock options vest immediately and the remaining stock options granted vest one fourth on each of the first, second, and third anniversary of the grant date. The forfeiture rates are based on historical data and managements estimates. The fair value of the options granted is estimated as at the grant date using the Black-Scholes option pricing model. The following assumptions were used in the Black Scholes model (a) risk free interest rate of 1.50%, (b) share price volatility of 97%, (c) forfeiture rate 0.88%, and (c) 5 years as expected life of options.

11. SHARE CAPITAL (CONTINUED)

Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Term (Years)	Options Exercisable	Weighted Average Exercise Price
8,187,500	$0.10	3.67	3,930,000	$0.10
5,510,000	$0.20	4.45	1,385,000	$0.20
280,000	$0.20	4.93	70,000	$0.20
120,000	$0.20	4.99	30,000	$0.20
14,097,500	$0.14	4.01	5,415,000	$0.13

(e) Warrants

During the period ended June 30, 2019, the Company issued warrants for consulting services, security for leases, investments, and pursuant to the IPO. The value of the warrants was calculated by using the Black Scholes Model. The following assumptions were used in the Black Scholes model (a) risk free interest rate of 1.77% to 2.18% (b) share price volatility of 76%-110%, and (c) 1.5-5 year expected life of warrants. Share-based compensation recognized on the warrants issued for service and investor relations is $277,209.

	Notes	Number of Warrants	Amount ($)	Weighted Average Exercise Price ($)	Weighted Average Expiry Date (Years)
Balance, December 31, 2017		-	-	-	-
Issued for services		2,250,000	107,674	0.13	1.88
Sugarbud investment	11b(v)	3,750,000	237,227	0.30	0.98
Auxly investment	11b(vi)	661,765	41,864	0.30	0.98
IPO warrants	11b(vii)	12,500,000	775,680	0.30	1.09
Agents broker warrants		2,500,000	213,334	0.15	1.09
Auxly investment	11b(ix)	3,529,412	218,602	0.30	1.09
Newstrike investment	11b(viii)	7,500,000	465,408	0.30	1.09
Cancellation of franchise agreement		360,500	79,144	0.28	1.16
Investor relation warrants		100,000	6,020	0.30	1.06
Exercised	11b(xvi)	(250,000)	(12,500)	0.10	-
Warrant issue costs		-	(183,652)	-	-
Balance, December 31, 2018		32,901,677	1,948,801	0.29	1.63
Issued for services		2,292,800	163,515	0.25	1.41
Convertible debenture warrants		20,000,000	1,421,348	0.25	1.41
Balance, June 30, 2019		55,194,477	3,533,664	0.29	1.54
Exercisable, end of period		54,410,077		0.30	1.07

12. SEGMENTED INFORMATION

The Company is a holding company that operates in three segments through its four subsidiaries: (i) Spirit Leaf Inc., Spirit Leaf Corporate Inc., and Spirit Leaf Macleod Inc., which have the primary business of the sale of cannabis and related accessories through corporate retail cannabis stores and the current operation, planned opening and ongoing support of franchise retail cannabis stores in Canadian jurisdictions where the private sale of recreational cannabis is permitted; (ii) Watch It! Consolidated Ltd., which has the primary business of on-going support of licensed retail watch stores and the sale of watches, sunglasses and related accessories through corporate retail outlets across Canada and through its websites; and (iii) Inner Spirit, a division for its corporate administration. All of the Company's assets are located in Canada.

Six months ended June 30, 2019	Watch It!	Spirit Leaf	Inner Spirit	NCI	Total
Revenue					
Retail revenue	$1,707,881	$ 39,942	$ -	$ -	$ 1,747,823
Royalties	51,830	323,468	-	-	375,298
Advertising	18,689	64,694	-	-	83,383
Millwork	-	503,487	-	-	503,487
Franchise Fees	-	101,250	-	-	101,250
Supply revenue and other	8,050	205,651	4,034	-	217,735
	1,786,450	1,238,492	4,034	-	3,028,976
Cost of goods sold	866,988	549,178	-	-	1,416,166
Gross profit	919,462	689,314	4,034	-	1,612,810
General and administrative	98,078	790,516	1,713,852	2,213	2,604,659
Salaries, wages, and benefits	668,871	996,927	-	-	1,665,798
Occupancy costs	300,272	398,069	-	-	698,341
Depreciation and amortization	267,248	700,107	171	21,456	988,982
Sales and marketing	2,585	109,118	144,360	-	256,063
Total operating expenses	1,337,054	2,994,737	1,858,383	23,669	6,213,843
Operating loss before other expenses	(417,592)	(2,305,423)	(1,854,349)	(23,669)	(4,601,033)
Share based compensation	-	-	55,111	-	55,111
Unrealized loss (gain) on marketable securities	-	-	(281,528)	-	(281,528)
Interest	110,400	177,106	152,386	-	439,892
Net loss and comprehensive loss	$ (527,992)	$ (2,482,529)	$ (1,780,318)	$(23,669)	$ (4,814,508)
Total assets	$1,046,010	$21,734,415	$ 7,611,635	$ -	$30,392,060
Total liabilities	$ 455,662	$12,726,829	$ 8,936,098	$ -	$22,118,589

12. SEGMENTED INFORMATION (CONTINUED)

Six months ended June 30, 2018	Watch It!	Spirit Leaf	Inner Spirit	Total
Revenue				
Retail revenue	$ 2,092,107	$ -	$ -	$ 2,092,107
Royalties	77,595	-	-	77,595
Advertising	19,399	-	-	19,399
Miscellaneous revenue	4,469	41,548	28	46,045
	2,193,570	41,548	28	2,235,146
Cost of goods sold	1,129,809	32,127	-	1,161,936
Gross profit	1,063,761	9,421	28	1,073,210
General and administrative	183,360	282,714	355,033	821,107
Salaries, wages, and benefits	742,670	444,044	660	1,187,374
Occupancy costs	423,175	58,128	-	481,303
Depreciation and amortization	126,566	23,131	200	149,897
Sales and marketing	43,222	124,453	63,693	231,368
Total operating expenses	1,518,993	932,470	419,586	2,871,049
Operating loss before other expenses	(455,232)	(923,049)	(419,558)	(1,797,839)
Share-based compensation	-	-	279,425	279,425
Unrealized loss on marketable securities	-	-	1,217,464	1,217,464
Interest	10,924	-	-	10,924
Royalties	5,040	-	-	5,040
Net loss and comprehensive loss	(471,196)	(923,049)	(1,916,447)	(3,310,692)
Total assets	$ 5,136,132	$ 1,195,724	$ 2,267,591	$ 8,599,447
Total liabilities	$ 538,493	$ 1,149,986	$ 1,455,431	$ 3,143,910

13. 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 year. The Company considers its shareholders' equity as capital which, as at June 30, 2019, is $8,343,322 (December 31, 2018 - $6,661,561).

14. FINANCIAL INSTRUMENTS AND RISK FACTORS

Fair values

At June 30, 2019, the Company's financial instruments consist of cash, short-term deposits, accounts receivable, marketable securities, accounts payable and accrued liabilities, payable to shareholder, and royalty debt. The fair values of cash, short-term deposits, 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. The fair value of the payable to shareholder and royalty debt are estimated using a discount cashflow valuation technique.

Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Marketable securities are classified as level 1, and the warrants included in marketable securities are classified as level 2. During the periods ended June 30, 2019 and 2018, 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; and,
- Market risk.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash, short term deposits 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, royalty revenue receivable from the franchisees from the previous month, and receivable from franchisees for millwork, which are considered reputable companies.

	June 30, 2019	December 31, 2018
Current	**$ 775,428**	$ **46,770**
31 – 60 days	**256,764**	**83,905**
61 – 90 days	**189**	**25,970**
Greater than 90 days	**284,136**	**422,197**
Accounts receivable	**$ 1,316,517**	$ **578,842**

For the three months-ended June 30, 2019, the total revenue included in accounts receivable is $90,010 (December 31, 2018- $25,413).

The Company assessed the credit loss risk to be nominal. The maximum credit risk exposure associated with cash, short-term deposits and accounts receivable is the total carrying value.

14. FINANCIAL INSTRUMENTS AND RISK FACTORS (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 at June 30, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year. As the Company has historically provided refundable franchise fee deposits, 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. All financial liabilities are due within a year.

As at June 30,	Maturity		**2019**
Accounts payables and accrued liabilities	Within 1 year	**$**	**675,937**
Advances from related party	Within 1 year		**208,508**
Short term note payable	Within 1 year		**250,000**
Refundable franchise fee deposits	Within 1 year		**85,000**
		$	**969,445**

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 profit or loss ("FVTPL"). For investments classified as FVTPL, the impact of a 10% increase or decrease in the share price would have a minimal impact on equity as the exercise price for the warrants is substantially higher than the current trading price.

15. DEBENTURES

A $10,000,000 convertible debt issuance was finalized in June 2019, with a 12% coupon rate per annum and a maturity date of June 30, 2022. The debentures were classified as a debenture with the conversion option component classified as an equity instrument. The carrying value of the debenture component as at June 30, 2019 was $7,540,415. The equity conversion option was measured at $2,623,100 using the Black Scholes model and the following assumptions: stock price of $0.185; expected life of 3 years; $nil dividends; expected volatility of 98.29%; exercise price of $0.25; and risk-free interest rate of 1.42%.

APPENDIX "B"

(*Attached*)

MANAGEMENT'S DISCUSSION & ANALYSIS OF

INNER SPIRIT HOLDINGS LTD.

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

Dated as at August 27, 2019

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Introduction

The following Management's Discussion and Analysis ("**MD&A**") of the financial results of Inner Spirit Holdings Ltd. ("**Inner Spirit**", "**we**", "**our**", or the "**Company**") should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2018 (the "**Annual Financial Statements**") and the interim condensed consolidated financial statements of the Company for the three and six months ended June 30, 2019 (the "**Interim Financial Statements**", and together with the Annual Financial Statements, the "**Financial Statements**"). 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 information in this MD&A is current as of August 27, 2019.

Forward-Looking Statements

Certain statements and information contained within this MD&A, and in certain documents incorporated by reference into this document, constitute "forward-looking information" and "forward-looking statements" (collectively, "**forward-looking statements**") within the meaning of applicable securities laws. These statements and information 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 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; the ability of the Company to fund its working capital and forecasted capital expenditures; the Company opening wholly-owned Spiritleaf-branded retail cannabis stores through its subsidiaries; there being up to 33 Spiritleaf-branded retail cannabis stores open and operating by the end of the third quarter of 2019; the Company's strategies and objectives, both generally and in respect of its existing business and planned businesses; the Company's corporate and franchise retail cannabis store strategies; the conditions 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 the 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 of the Company to raise capital; the continued availability of capital; the ability of the Company and its franchisees to open corporate wholly-owned and franchised Spiritleaf-branded retail cannabis stores; the ability of the Company 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 MD&A, as the case may be. 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: the actual financial position and results of operations of the Company may differ materially from the expectations of management; the ability to obtain the capital required to fund development and operations; the ability of the Company to effectively manage its growth and operations; the development and growth of the recreational cannabis retail industry in general; the competition within the cannabis industry in general, which involves companies with higher capitalization, more experienced management or which may be more mature as a business; the ability to capitalize on changes to the marketplace; the ability to comply with applicable governmental regulations and standards; changes to cannabis laws; the ability to attract and retain skilled and experienced personnel; the impact of changes in the business strategies and development priorities of strategic partners; and other risk factors set forth elsewhere in this MD&A or in the documents incorporated by reference into 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.

Non-IFRS Financial Measures

This MD&A makes reference to "system-wide retail sales", a financial measure that is not determined or defined in accordance with IFRS. Such non-IFRS financial measure does not have a standardized meaning prescribed by IFRS and Inner Spirit's methods of calculating this financial measure may differ from methods used by other companies. Accordingly, such non-IFRS financial measure may not be comparable to similarly titled measures presented by other companies. This measure is provided as additional information to complement IFRS by providing a further understanding of operations from management's perspective and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

System-wide retail sales, when presented: (i) on a consolidated basis for the Company, represents the sum of the revenue reported to the Company by franchisees of Spiritleaf-branded retail cannabis stores, by Company-owned Spiritleaf-branded retail cannabis stores, by franchisees of Watch It! retail stores and by Company-owned Watch It! retail stores; (ii) for the Spirit Leaf Division, represents the sum of the revenue reported to the Company by franchisees of Spiritleaf-branded retail cannabis stores and by Company-owned Spiritleaf-branded retail cannabis stores; and (iii) for the Watch It! Division, represents the sum of the revenue reported to the Company by franchisees of Watch It! retail stores and by Company-owned Watch It! retail stores.

This measure is useful to management and the investment community in evaluating brand scale and market penetration, and is used by management of Inner Spirit to assess the financial and operational performance of the Company and the strength of the Company's market position relative to its competitors.

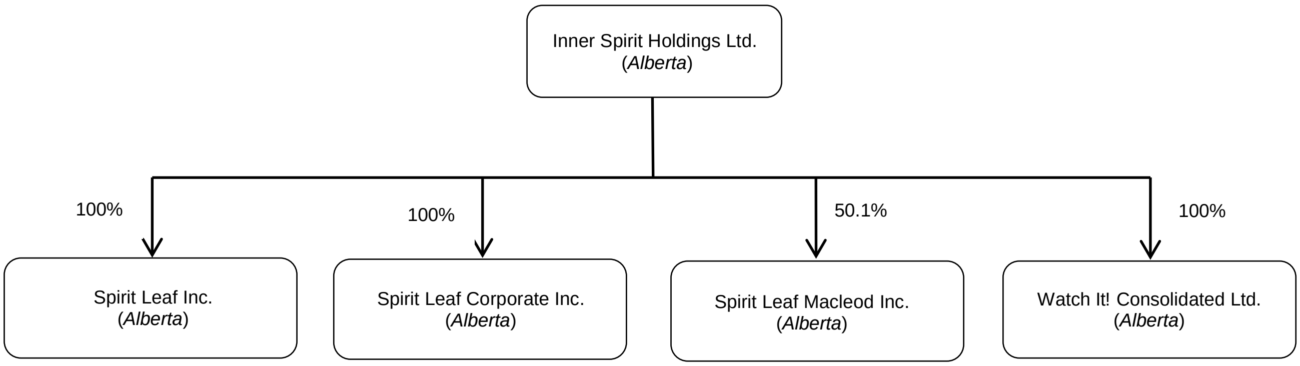
Corporate Overview

Corporate Structure

Inner Spirit was incorporated under the *Business Corporations Act* (Alberta) ("**ABCA**") on March 16, 2017. The Company was then amalgamated under the ABCA on August 31, 2017 with 2043246 Alberta Ltd., a private holding company with no active business operations, with the intent of going public through an initial public offering. The Company completed its initial public offering on July 31, 2018 (the "**IPO**") and subsequently the Company's common shares started trading on the Canadian Securities Exchange on August 1, 2018 under the symbol "ISH". The registered office of the Company is Suite 1600, 333 - 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

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 are extra-provincially registered in the various jurisdictions in which they operate.

The organizational chart for the Company is as follows:



Description of the Business

The Company operates through three divisions: (i) the "Inner Spirit Corporate Division"; (ii) the "Spirit Leaf Division"; and (iii) the "Watch It! Division".

Inner Spirit Corporate Division

The Inner Spirit Corporate Division is operated through the Company and is responsible for the corporate administration of the Company.

Spirit Leaf Division

The Spirit Leaf Division is comprised of: (i) the business of Spirit Leaf, the franchise division of the Company's cannabis business, which consists of the current operation, planned opening and ongoing support of, and the collection of franchise fees, royalties and the sale of supplies to, Spiritleaf-branded franchise or licensed retail cannabis stores in Alberta, British Columbia, Saskatchewan, and Ontario; (ii) the business of Spirit Leaf Macleod, a joint venture company with 101805 Alberta Ltd., which consists of the operation of a Spiritleaf-branded retail cannabis store in Calgary, Alberta; (iii) the business of Spirit Leaf Corporate, which consist of the current operation and the planned opening of wholly-owned corporate Spiritleaf-branded retail cannabis stores in Alberta. Spirit Leaf operates an online business (www.Spiritleaf.ca) through which it sells non-cannabis products and through which it plans, in jurisdictions where the private online retailing of recreational cannabis is permitted, to sell cannabis consumer products. In addition, Spirit Leaf also intends to create house brands, brand white-label cannabis products with such house brands in jurisdictions where doing so is permitted, and to sell such branded white-label cannabis products through its own vertical distribution network, which, if and where permitted, may include online, wholly-owned retail cannabis stores and franchise retail cannabis stores.

As at June 30, 2019, a total of 10 Spiritleaf-branded retail cannabis stores were open and operating across Canada: (i) 5 Spiritleaf-branded franchised retail cannabis stores were open and operating in Alberta; (ii) 2 Spiritleaf-branded wholly-owned corporate retail cannabis stores, which opened in late June 2019, were open and operating in Alberta; (iii) 1 Spiritleaf-branded franchised retail cannabis store, which opened in late June 2019, was open and operating in British Columbia; (v) one Spiritleaf-branded franchised retail cannabis store was open and operating in Saskatchewan; and (vi) one Spiritleaf-branded licensed retail cannabis store was open and operating in Ontario.

As at the date of this MD&A a total of 24 Spiritleaf-branded retail cannabis stores are open and operating across Canada: (i) 12 Spiritleaf-branded franchised retail cannabis stores are open and operating in Alberta; (ii) 5 Spiritleaf-branded wholly-owned corporate retail cannabis stores are open and operating in Alberta; (iii) one Spiritleaf-branded retail cannabis store, owned by Spirit Leaf Macleod, is open and operating in Alberta; (iv) 4 Spiritleaf-branded franchised retail cannabis stores are open and operating in British Columbia; (v) one Spiritleaf-branded franchised retail cannabis store is open and operating in Saskatchewan; and (vi) one Spiritleaf-branded licensed retail cannabis store is open and operating in Ontario. The Company anticipates that there will be up to 33 Spiritleaf-branded retail cannabis stores open and operating by the end of the third quarter of 2019, of which up to eight retail cannabis stores are expected to be corporate-owned (inclusive of the store operated by Spirit Leaf Macleod).

On November 21, 2018, the Alberta Gaming, Liquor and Cannabis Commission (the "**AGLC**") temporarily suspended accepting new cannabis retail licence applications and issuing any additional cannabis retail licenses (the "**Temporary Suspension**"). 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. On May 30, 2019, the AGLC announced the lifting of its moratorium on accepting new retail licence applications, and began issuing five retail cannabis store licences per week, subsequently increasing that number to ten and then twenty retail cannabis store licenses per week. As at the date hereof there is no longer a licensing queue in Alberta, which means that stores are licensed upon compliance with the AGLC's requirements for the issuance of a final retail cannabis licence.

On December 13, 2018, the Government of Ontario announced that a temporary cap of 25 retail operator licenses will be imposed while cannabis supply stabilizes (the "**Temporary Cap**"). At that time, the Government of Ontario gave the Alcohol and Gaming Commission of Ontario ("**AGCO**") the mandate to hold a lottery to determine who may apply for retail operator licenses. The retail operator licenses lottery was subsequently held in January, 2019 and on August 20, 2019, the AGCO held a second lottery to select applicants that will be invited to apply for one of 42 additional retail store authorizations for retail cannabis stores.

As a result of the Temporary Suspension and the Temporary Cap, the number of retail cannabis outlets operating in Alberta and Ontario during the quarter ended June 30, 2019 remained below the number of retail cannabis outlets that would have been in operation if the Temporary Suspension and the Temporary Cap had not enacted. While the Temporary Suspension remained in place franchisees of Spirit Leaf operating Spiritleaf-branded retail cannabis stores faced, and, while the Temporary Cap remains in effect the Company's partner (the "**Ontario Partner**") operating a Spiritleaf-branded licensed retail cannabis store in Ontario will face, artificially lower levels of general competition from other retail cannabis stores as compared to the alternative had the Temporary Suspension and the Temporary Cap not been enacted. As the Temporary Suspension has now been lifted, it is anticipated that Spiritleaf-branded retail cannabis stores in Alberta, including Spiritleaf-branded corporate-owned retail cannabis stores, will receive licences upon compliance with the AGLC's requirements for the issuance of a final retail cannabis licence instead of being placed into a licensing queue. As other retailers, some of which have greater financial resources than the Company and its franchisees, will also be able to receive retail cannabis licences upon compliance with AGLC requirements, competition faced by Spiritleaf-branded retail cannabis stores from other retailers is anticipated to increase.

Because of the preliminary stage of the recreational cannabis market in Canada, the Company expects that its subsidiaries and franchisees of Spirit Leaf will face competition from new entrants (subject to the Temporary Cap). To remain competitive, the Company and its subsidiaries will require a continued high level of investment in marketing, sales and client support. The Company believes that its product knowledge, experience operating retail outlets under the Watch It! brand, and strategic partnerships with larger, established companies in the cannabis industry (including Auxly Cannabis Group Inc., HEXO Corp. and Tilray, Inc.), will allow it to offset some of the risks associated with any increased competition in the retail cannabis market.

Pursuant to regulations enacted by the Government of Canada, the sale of edible cannabis products and concentrates will be permitted in late December, 2019. The Company and its subsidiaries expect to dedicate additional resources to explore the sale of edible products and concentrates as soon as they are lawfully permitted to do so.

Watch It! Division

The Watch It! Division is comprised of the business of Watch It!, which consists of the marketing, sale and distribution of watches, sunglasses, watch repair services and related accessories through six wholly-owned retail stores, six franchise retail stores and two e-commerce sites. Watch It! stores are currently located in

Alberta, British Columbia, Saskatchewan and Ontario. The business of Watch It! is seasonal, and is generally busier from May to August and November to December of each year.

The watch, sunglasses, and related accessory industries are highly competitive with general competitors including department stores, large mass-merchandising stores and warehouse clubs, such as The Bay, Simons, Nordstrom and Costco, among others. Watch It!'s stores compete with many retailing formats in the geographic areas in which they operate, including department stores, specialty stores, general merchandising stores, off-price and discount stores, new and established forms of home shopping (including the internet, mail order catalogues and television) and manufacturers' outlets. Significant competitors in the geographical regions in which Watch It! operates include The Bay, Fossil, Watch Station, Ann Louise and Ben Moss, among others.

There is no effective barrier to entry into the Canadian watch, sunglasses, and related accessory retailing marketplaces by any potential competitor, foreign or domestic. Additionally, Canadian consumers have a significant number of e-commerce shopping alternatives available to them on a global basis. Watch It! seeks to attract customers with a select offering of brands in an appealing shopping environment at conveniently located stores where it offers a high level of customer service. Additionally, Watch It! attempts, to the extent possible, to counter competition on the basis of price, fashion, service and quality.

Watch It! operates multiple retail locations in several Canadian provinces, with product offerings that are sufficiently diversified and consistently updated to keep up with consumer trends and demand. Watch It! also offers an e-commerce alternative for shoppers through its two e-commerce sites. The e-commerce retail landscape is highly competitive with both domestic and foreign competition.

Results of Operations

The following table summarizes our consolidated results of operations for the three and six month periods ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
System-Wide Retail Sales(1)	**$ 6,684,484**	$ 2,192,757	**$ 10,091,314**	$ 3,978,894
Revenue				
Retail revenue	**959,967**	1,160,282	**1,747,823**	2,092,107
Royalties	**258,680**	42,483	**375,298**	77,595
Advertising	**57,316**	10,621	**83,383**	19,399
Millwork	**312,315**	-	**503,487**	-
Franchise fee	**57,500**	-	**101,250**	-
Supply and other revenue	**130,103**	11,589	**217,735**	46,045
Total revenue	**$ 1,775,881**	$ 1,224,975	**$ 3,028,976**	$ 2,235,146
Cost of goods sold	**833,347**	640,543	**1,416,166**	1,161,936
Gross profit	**942,534**	584,432	**1,612,810**	1,073,210
Operating expenses				
General and administrative	**1,670,729**	491,303	**2,604,659**	821,107
Salaries, wages, and benefits	**884,946**	642,437	**1,665,798**	1,187,374
Occupancy costs	**504,389**	272,425	**698,341**	481,303
Depreciation and amortization	**111,491**	78,385	**190,938**	149,897
Right of use asset depreciation	**309,715**	-	**798,044**	-
Sales and marketing	**170,090**	134,957	**256,063**	231,368
Total operating expenses	**3,651,360**	1,619,507	**6,213,843**	2,871,049
Other expenses				
Share-based compensation	**55,111**	127,790	**55,111**	279,425
Unrealized loss (gain) on marketable securities	**(208,991)**	737,536	**(281,528)**	1,217,464
Interest expense	**254,737**	11	**439,892**	10,924
Royalty expense	**-**	-	**-**	5,040
Total other expenses	**100,857**	865,337	**213,475**	1,512,853
Net loss and comprehensive loss	**$ (2,809,683)**	$ (1,900,412)	**$ (4,814,508)**	$ (3,310,692)

Note:
(1) System-wide retail sale is a non-IFRS measure that does not have a standardized meaning prescribed by IFRS. See the "Non-IFRS Financial Measures" section of this MD&A.

The Company reported a net loss and comprehensive loss of $2,809,683 and $4,814,508 for the three and six month periods ended June 30, 2019, respectively, compared to $1,900,412 and $3,310,692 for the three and six month periods ended June 30, 2018. The increases in net loss and comprehensive loss were principally due to higher operating expenses incurred by the Company, as discussed below, and are attributable to expenses incurred to set up and expand the Spirit Leaf Division, which is a start up in the new regulated retail cannabis business.

Revenue

Total revenue for the three month period ended June 30, 2019 was $1,775,881 versus $1,224,975 in the same period in the prior year, representing a 45.0% increase. Revenue for the six month period ended June 30, 2019 was $3,028,976 versus $2,235,146 in the same period in the prior year, representing a **35.5**% increase.

The growth in total revenue is attributable to the opening of Spiritleaf-branded franchised retail cannabis stores in the three and six months ended June 30, 2019 and in the fourth quarter of 2018. Prior to opening, such Spiritleaf-branded franchised retail cannabis stores purchased millwork from the Company, driving revenues from millwork, and once open and operating, such Spiritleaf-branded franchised retail cannabis stores generated royalties, advertising and supply and other revenues for the Company.

The decline in consolidated retail revenue from the three and six month periods ended June 30, 2018 to the same periods in 2019 was driven by the decline in retail revenue earned by the Watch It! Division, which resulted primarily from the closure of two corporate-owned Watch It! retail stores. Two corporate-owned Spiritleaf-branded retail cannabis stores opened on June 26 and June 28, 2019, but did not materially add to the consolidated retail revenue for the periods. The two corporate-owned Spiritleaf-branded retail cannabis stores, as well as additional corporate-owned retail cannabis stores that opened in July and August, 2019 and that are anticipated to open in September, 2019, are expected to drive retail revenue growth in the third quarter of 2019.

During the three and six month periods ended June 30, 2019 the Company achieved system-wide retail sales of $6,684,484 and $10,091,314, representing increases of 204.8% and 153.6% from the same periods in the prior year. Growth in system-wide retail sales was driven by the Spirit Leaf Division, as a number of Spiritleaf-branded franchised retail cannabis stores opened subsequent to June 30, 2018 and generated system-wide retail sales.

Gross Profit

Gross profit for the three month period ended June 30, 2019 was $942,534 versus $584,432 in the same period in the prior year, representing a 61.3% increase. Gross profit for the six month period ended June 30, 2019 was $1,612,810 versus $1,073,210 in the same period in the prior year, representing a 50.3% increase. The increase in gross profit was driven primarily by the growth in total revenue, which is discussed in the section above, and further enhanced by the increase in royalties, which did not have a corresponding increase in cost of goods sold.

Operating Expenses

Total operating expenses for the three and six month periods ended June 30, 2019 were $3,651,360 and $6,213,843, compared to $1,619,507 and $2,871,049 in the same periods in the prior year. The significant increases from comparable periods were driven largely by the Company's continued growth and expansion into the retail cannabis industry to take advantage of the market opportunities created by the legalization of recreational cannabis use across Canada on October 17, 2018. This required the Company to incur significant costs to build-out and open corporate-owned retail cannabis stores, hire retail staff for corporate-owned retail cannabis stores that were opened and that are anticipated to be opened by the Company, and to hire managerial and administrative staff to support the Company's growth.

Significant costs were also incurred by the Company for the Debenture Financing (as defined herein) that closed on May 25 and June 7, 2019 and for carrying leases for potential locations for corporate and franchised retail cannabis stores. The adoption of IFRS 16 (as defined herein) with respect to the accounting treatment of leases resulted in right of use asset depreciation increasing to $309,715 and $798,044 in the three and six month periods ended June 30, 2019 from $Nil in the same periods in the prior year.

Other Expenses

Total other expenses for the three and six month periods ended June 30, 2019 were $100,857 and $213,475, compared to $865,337 and $1,512,853 in the same periods in the prior year. The variances between the periods relate primarily to the Company recording an unrealized gain on marketable securities, being shares of Tilray, Inc. Class 2 Common Stock (the "**Tilray Shares**") that it acquired on June 13, 2019, whereas it recorded unrealized losses on marketable securities in the same periods in the prior year.

The Company incurred interest expenses of $254,737 and $439,892 in the three and six month periods ended June 30, 2019 versus $11 and $10,924 in the same periods in the prior year, driven primarily by interest incurred on the Convertible Debentures issued in the Debenture Financing and by accretion expense related to lease liabilities due to the adoption of IFRS 16 by the Company effective January 1, 2019.

Segment Operations

Inner Spirit Corporate Division

The following table sets out certain selected financial information for the Spirit Leaf Corporate Division for the three and six month periods ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Revenue	**$ 8**	$ 28	**$ 4,034**	$ 28
Cost of goods sold	**-**	-	**-**	-
Gross profit	**8**	28	**4,034**	28
Operating expenses				
General and administrative	**1,567,567**	202,311	**1,713,852**	355,033
Salaries, wages, and benefits	**-**	660	**-**	660
Depreciation and amortization	**79**	-	**171**	200
Sales and marketing	**85,919**	63,693	**144,360**	63,693
Occupancy costs	**-**	-	**-**	-
Total operating expenses	**1,653,565**	266,664	**1,858,383**	419,586
Other Expenses				
Share-based compensation	**55,111**	127,790	**55,111**	279,425
Unrealized loss (gain) on marketable securities	**(208,991)**	737,536	**(281,528)**	1,217,464
Interest expense	**152,386**	-	**152,386**	-
Total other expenses	**(1,494)**	865,326	**(74,031)**	1,496,889
Net loss and comprehensive loss	**$ (1,652,063)**	$ (1,131,962)	**$ (1,780,318)**	$ (1,916,447)

The main function of the Inner Spirit Corporate Division is to administer the Spirit Leaf Division and the Watch It! Division and to manage the executive management and financing needs of the business. Accordingly, the Inner Spirit Corporate Division is not a significant revenue generating unit, generating revenues of only $8 and $4,034 in the three and six month periods ended June 30, 2019. The Company's general and administrative costs are, for the most part, incurred by the Inner Spirit Corporate Division.

Spirit Leaf Division

The following table sets out certain selected financial information for the Spirit Leaf Division for the three and six month periods ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
System-Wide Retail Sales(1)	**$ 4,626,946**	$ -	**$ 6,517,391**	$ -
Revenue	**802,735**	12,151	**1,238,492**	41,548
Cost of goods sold	**345,144**	10,004	**549,178**	32,127
Gross profit	**457,591**	2,147	**689,314**	9,421
Operating expenses				
General and administrative	**66,499**	155,797	**790,516**	282,714
Salaries, wages, and benefits	**560,713**	244,564	**996,927**	444,044
Depreciation and amortization	**244,473**	21,717	**700,107**	23,131
Sales and marketing	**83,313**	40,542	**109,118**	124,453
Occupancy costs	**288,681**	48,054	**398,069**	58,128
Total operating expenses	**1,243,679**	510,674	**2,994,737**	932,470
Other Expenses				
Interest expense	**34,186**	-	**177,106**	-
Total other expenses	**34,186**	-	**177,106**	-
Net loss and comprehensive loss	**$ (820,274)**	$ (508,527)	**$ (2,482,529)**	$ (923,049)

Note:

(1) System-wide retail sale is a non-IFRS measure that does not have a standardized meaning prescribed by IFRS. See the "Non-IFRS Financial Measures" section of this MD&A.

The Spirit Leaf Division demonstrated significant revenue growth year-over-year, with revenue up $790,584 and $1,196,944 in the three and six month periods ended June 30, 2019, respectively, from the same periods in the prior year. The growth in revenue is attributable to the opening of Spiritleaf-branded franchised retail cannabis stores in the three and six months ended June 30, 2019 and in the fourth quarter of 2018. Prior to opening, such Spiritleaf-branded franchised retail cannabis stores purchased millwork from Spirit Leaf, driving revenues from millwork, and once open and operating, such Spiritleaf-branded franchised retail cannabis stores generated royalties, advertising and supply and other revenues for Spirit Leaf. Additionally, once a franchised retail cannabis store opens, the franchise fee deposit that was received by Spirit Leaf for such franchise and recorded as a liability on the balance sheet of the Company is recognized as revenue.

During the three and six month periods ended June 30, 2019 the Spirit Leaf Division achieved system-wide retail sales of $4,626,946 and $6,517,391, compared to $Nil in system-wide retail sales in the same periods in the prior year. Similar to the growth in revenue, the growth in system-wide retail sales was driven by the opening of Spiritleaf-branded franchised retail cannabis stores in the three and six months ended June 30, 2019 and in the fourth quarter of 2018, thereby generating system-wide retail sales.

Performance Evaluation

To date, management of the Company evaluated the performance of the operations of the Spirit Leaf Division by reviewing the following key performance metrics:

- *Revenue*: revenue from the division in the three and six months ended June 30, 2019 was up $790,584 and $1,196,944 from the same periods in the prior year.

- *System-Wide Retail Sales*: system-wide retail sales for the division in the three and six months ended June 30, 2019 were up $4,626,946 and $6,517,391 from the same periods in the prior year.

Due to the preliminary nature of the division's operations, management has yet to institute and rely on other key performance metrics which generally may provide additional insight but that require operating corporate-owned retail cannabis stores and additional operating quarters. Management anticipates adopting additional key performance metrics in the future once additional corporate and franchise stores are opened and operated for several quarters.

Watch It! Division

The following table sets out certain selected financial information for the Watch It! Division for the three and six month periods ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
System-Wide Retail Sales(1)	**$ 2,057,538**	$ 2,192,757	**$ 3,573,923**	$ 3,978,894
Revenue	**973,138**	1,212,796	**1,786,450**	2,193,570
Cost of goods sold	**488,203**	630,539	**866,988**	1,129,809
Gross profit	**484,935**	582,257	**919,462**	1,063,761
Operating expenses				
General and administrative	**36,496**	133,195	**98,078**	183,360
Salaries, wages, and benefits	**324,233**	397,213	**668,871**	742,670
Depreciation and amortization	**165,895**	56,668	**267,248**	126,566
Sales and marketing	**858**	30,722	**2,585**	43,222
Occupancy costs	**215,708**	224,371	**300,272**	423,175
Total operating expenses	**743,190**	842,169	**1,337,054**	1,518,993
Other Expenses				
Interest expense	**68,165**	11	**110,400**	10,924
Royalty expense	**-**	-	**-**	5,040
Total other expenses	**68,165**	11	**110,400**	15,964
Net loss and comprehensive loss	**$ (326,420)**	$ (259,923)	**$ (527,992)**	$ (471,196)

Note:
(1) System-wide retail sale is a non-IFRS measure that does not have a standardized meaning prescribed by IFRS. See the "Non-IFRS Financial Measures" section of this MD&A.

The Watch It! Division experienced a decrease in revenue year-over-year, with revenue down $239,658 and $407,120 in the three and six month periods ended June 30, 2019, respectively, from the same periods in the prior year. This decline resulted primarily from the closure of two corporate-owned Watch It! retail stores subsequent to the periods in 2018.

During the three and six month periods ended June 30, 2019 the Watch It! Division achieved system-wide retail sales of $2,057,538 and $3,573,923, compared to $2,192,757 and $3,978,894 in system-wide retail sales in the same periods in the prior year. Similar to revenue, this decline was driven primarily by the closure of the two corporate-owned Watch It! retail stores subsequent to the periods in 2018.

Performance Evaluation

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

- *Revenue*: revenue from the division in the three and six months ended June 30, 2019 was down $239,658 and $407,120 from the same periods in the prior year. This decline resulted primarily from the closure of two corporate-owned Watch It! retail stores subsequent to the periods in 2018.

- *System-Wide Retail Sales*: system-wide retail sales for the division in the three and six months ended June 30, 2019 were down $135,219 and $404,971 from the same periods in the prior year. Similar to revenue, this decline was driven primarily by the closure of the two corporate-owned Watch It! retail stores subsequent to the periods in 2018.

- *Gross Profits:* gross profits from the division in the three and six months ended June 30, 2019 were down $97,322 and $144,299 from the same periods in the prior year. This decline in gross profits was driven primarily by the decline in revenue, which resulted from the closure of the two corporate-owned Watch It! retail stores subsequent to the periods in 2018.

- *Staff to Sales Ratio:* The staff to sales ratio is calculated by dividing the amount of salaries, wages and benefits incurred in a period by the revenue generated in that same period. Management uses this ratio to evaluate the value of its workforce as a function of its revenue, with a declining ratio indicating increasing revenue generating efficiency. The staff to sales ratios for the three and six month periods ended June 30, 2019 were 33.3% and 37.4% ,compared to 32.8% and 33.9% for the same periods in the periods in the prior year. This ratio increased in 2019 primarily due to the decrease in revenues, as discussed above.

- *Rent to Sales Ratio*: The rent to sales ratio is calculated by dividing the amount of occupancy costs incurred in a period by the revenue generated in that same period. Management uses this ratio to evaluate and manage the expenses of the division, with an increasing ratio indicating increasing occupancy costs associated with revenue generation. The rent to sales ratios for the three and six month periods ended June 30, 2019 were 22.2% and 16.8%, compared to 18.5% and 19.3% for the same periods in the prior year. The changes in these ratios is a result of the offsetting effects of the store closures, as outlined above, that caused decreased sales but also allowed for the reduction in occupancy costs.

Summary of Quarterly Results

The following table sets out certain selected financial information for the eight most recently completed quarters:

	Fiscal Quarter Ended							
	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17
Revenue	$ 1,775,881	$ 1,253,095	$ 2,011,460	$ 1,544,779	$ 1,224,975	$ 1,010,171	$ 1,895,382	$ 1,052,481
Net loss	$ (2,809,683)	$ (2,004,895)	$ (7,437,030)	$ (940,605)	$ (1,900,412)	$ (1,410,280)	$ (381,378)	$ (373,874)
Basic loss per share	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.01)	$ (0.03)	$ (0.01)	$ (0.01)	$ (0.01)
Diluted loss per share	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.01)	$ (0.03)	$ (0.01)	$ (0.01)	$ (0.01)

The Company has incurred losses over the last eight quarters as it implemented and executed its strategy of building an iconic Canadian retail brand and opening a chain of corporate and franchise retail cannabis stores across Canadian jurisdictions where the private distribution of cannabis is legal. Results have varied between these fiscal quarters principally because of, among other things:

(i) significant expenses and professional fees incurred in connection with the Debenture Financing in the fiscal quarter ended June 30, 2019;

(ii) the seasonal nature of the business of the Watch It! Division, which is busiest in the periods of May to August (covering a portion of the second and third fiscal quarters) and November to December (covering a portion of the fourth fiscal quarter) in each year;

(iii) revenue generated from Spiritleaf-branded franchised retail cannabis stores that opened in the three and six months ended June 30, 2019 and in the fourth quarter of 2018;

(iv) increased salaries and wages as the organization grows and enters into commercialization and operation of its Spiritleaf-branded corporate retail cannabis stores and supports the opening of Spiritleaf-branded franchised retail cannabis stores;

(v) increased marketing and branding expenses related to building and growing the Company's Spiritleaf brand;

(vi) an impairment charge of $3,526,918 recorded by the Company in the fiscal quarter ended December 31, 2018, relating to the Watch It! Division;

(vii) swings in unrealized losses or gains on marketable securities that were acquired by the Company pursuant to its transactions with strategic partners;

(viii) the implementation of IFRS 16, which increased the net loss in the 2019 fiscal quarters;

(ix) share-based compensation expenses for (a) stock options that were issued in the first and fourth quarters of 2018, and (b) warrants issued throughout the quarters to various service providers and pursuant to transactions with strategic partners; and

(x) expenses incurred in connection with the completion of the IPO in July of 2018, including associated listing expenses and professional fees incurred in the months leading up to it.

It is anticipated that certain costs are non-recurring and/or will normalize over time.

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, Cash Flows and Capital Resources

Cash Flows

	Six months ended	
	June 30, 2019	June 30, 2018
Cash flows from (used in):		
Operating activities before working capital changes	**$ (4,051,943)**	$ (1,663,906)
Changes in non-cash working capital	**355,979**	105,946
Operating activities	**(3,695,964)**	(1,557,960)
Financing activities	**13,466,997**	2,508,419
Investing activities	**(7,325,636)**	(442,334)
Increase in cash	**2,445,397**	508,125
Cash and cash equivalents, beginning of period	**3,375,588**	953,055
Cash and cash equivalents, end of period	**$ 5,820,985**	$ 1,461,180

Operating Activities

Cash flows used in operating activities were $3,695,964 for the six months ended June 30, 2019, compared to $1,557,960 in the same period in the prior year, primarily due to increased expenses associated with the expansion of the Spirit Leaf Division and the significant costs incurred in connection with the Debenture Financing.

For the six months ended June 30, 2019, operating activities were affected by a net change of $355,979 (June 30, 2018 - $105,946) in non-cash working capital balances due to, among other things:

- an increase in accounts receivables of $737,675 (June 30, 2019 – decrease of $57,561), largely due to increased revenue from the Spirit Leaf Division;

- a decrease in inventory of $107,651 (June 30, 2018 – increase of $478,598) comprised of (i) a $51,460 decrease (June 30, 2018 – increase of $478,598) in merchandise inventory held by the Watch It! Division, (ii) a $323,859 increase (June 30, 2018 –$Nil) in merchandise inventory held by the Spirit Leaf Division due to the continued ramp up of franchised and corporate retail cannabis operations since the legalization of recreational cannabis in Canada on October 17, 2018, and (iii) a $380,050 decrease (June 30, 2018 –$Nil) in millwork inventory held by the Spirit Leaf Division due to the continuing build-out and opening of franchised Spiritleaf-branded retail cannabis stores that require this millwork;

- a decrease in accounts payable and accrued liabilities of $618,324 (June 30, 2018 – increase of $255,976), primarily due to the timing of payments and receipt of invoices;

- an increase in short term note payable of $250,000 (June 30, 2018 – $Nil), due to a promissory note issued by the Company to a third party in connection with the acquisition of assets by the Company from such third party;

- an increase in accretion of lease liability of $843,947 (June 30, 2018 – $Nil), due to the adoption of IFRS 16 by the Company effective January 1, 2019 and the associated treatment of lease liability thereunder;

- an increase in lease deposits of $107,396 (June 30, 2018 – decrease of $77,168), due to the establishment of additional Spiritleaf-branded stores;

- a decrease in deferred revenue of $137,783 (June 30, 2018 - $Nil), as a result of recognizing a portion of deferred revenue as retail revenue during the period on a straight-line basis over the term of the Irrevocable Commercial Rights Agreement with Auxly Cannabis Group Inc., as outlined in Note 4 of the Interim Financial Statements;

- a decrease in franchise fee deposits of $262,500 (June 30, 218 - $424,000), as a result of recognizing such franchise fee deposits as revenue in the period due to the opening of franchised Spiritleaf-branded retail cannabis stores.

Financing Activities

For the six months ended June 30, 2019, cash provided by financing activities was $13,466,997 (June 30, 2018 - $2,508,419) primarily due to the proceeds of the Debenture Financing completed during the period. The Company also recorded $4,078,750 (June 30, 2018 - $Nil) in cash provided from the issuance of share capital, net of issuance costs, related to the issuance of common shares (i) to purchase assets of proposed retail cannabis stores, (ii) to induce the Ontario Partner to enter into the partnership with the Company, and (ii) pursuant to the investment transaction with Tilray, Inc., whereby the Company issued common shares to Tilray, Inc. in consideration for Tilray, Inc. issuing Tilray Shares to the Company (collectively, the "**Financing Transactions**"). The Company recorded a corresponding similar amount as a cash use under investing activities.

Investing Activities

For the six months ended June 30, 2019, total cash used by investing activities was $7,325,636 (June 30, 2018 - $442,334), which predominantly reflects the Financing Transactions and cash used in connection therewith, and the acquisition of property, plant and equipment.

For the six months ended June 30, 2019, total cash used by investing activities was $7,325,636 (June 30, 2018 - $442,334), which predominantly reflects the Financing Transactions and cash used in connection therewith, and the acquisition of property, plant and equipment. Specifically, $1,028,681 (June 30, 2018 - $442,334) was used to acquire property and equipment, with the increase resulting from new Spiritleaf store build outs. Tilray Shares in the amount of $1,500,000 (June 30, 2018 - $Nil) were acquired in exchange for the Corporation's common shares for the same amount. Costs in the amount of $1,251,850 (June 30, 2018 - $Nil) were incurred in connection with a franchise inducement. Another $2,402,026 (June 30, 2018 - $Nil) and $1,143,079 (June 30, 2018 - $Nil) of costs were incurred to acquire store permits and franchise store permits, respectively.

Liquidity and Capital Resources

The unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2019 are prepared by management in accordance with IFRS on a going concern basis, which assumes that the Company will be able to continue to operate for the foreseeable future. However, the Company is exposed in varying degrees to a variety of financial risks, including liquidity risk and market risks with respect to its ability to raise capital through equity markets under acceptable terms and conditions.

The Company has incurred losses since incorporation and as of June 30, 2019 had an accumulated deficit of $18,059,238 (June 30, 2018 - $12,984,037). The Company is in the development stage of expanding by opening corporate Spiritleaf-branded retail cannabis stores and supporting the opening of franchised Spiritleaf-branded retail cannabis stores across Canada.

Liquidity is primarily influenced by the operational performance of franchised and corporate Spiritleaf-branded retail cannabis stores and Watch It! retail stores, the level of spending on branding and marketing initiatives, the level of spending on building-out and starting operations of corporate Spiritleaf-branded retail cannabis stores, the ability to obtain external sources of financing, and sales of the Company's products. The Company’s objectives when managing its liquidity and capital resources are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk.

The Company monitors its liquidity on a continuous basis to ensure there is sufficient capital to meet business requirements and to provide shareholder value. At June 30, 2019, the Company had sufficient cash on hand to meet its short-term liabilities and commitments as they become due. In the longer term, the Company’s ability to continue as a going concern is dependent upon its ability to generate positive cash flow and net income, or raise additional capital and then generate positive cash flow and net income. There can be no assurance that equity or debt financings will be available to the Company in the future on terms satisfactory to the Company. Circumstances that could impair the Company’s ability to raise additional funds include general economic conditions and its ability to expand operations within the recreational cannabis industry in Canada.

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	675,937	675,937	-	-	-
Short term note payable	250,000	250,000			
Payable to related party	208,508	208,508	-	-	-
Unredeemed gift card liability	164,956	164,956	-	-	-
Lease liabilities	10,531,400	1,692,479	3,693,966	3,232,221	1,912,734

As at June 30, 2019, the Company has collected $1,580,100 of franchise fee deposits and recorded them as a liability. 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.

Statement of Financial Position

The following table sets out certain selected financial position data as at June 30, 2019 and December 31, 2018:

	As at June 30, 2019 (Unaudited)	As at December 31, 2018 (Audited)
Total Current Assets	$ 11,920,640	$ 8,197,564
Total Non-Current Assets	18,471,420	3,252,105
Total Assets	30,392,060	11,449,669
Total Current Liabilities	3,407,557	2,043,442
Total Non-Current Liabilities	18,711,032	2,790,784
Total Liabilities	22,118,589	4,834,226
Total Shareholders' Equity of Parent	8,343,322	6,661,561
Non-Controlling Interest	(69,851)	(46,118)
Total Shareholders' Equity	$ 8,273,471	$ 6,615,443

As at June 30, 2019, the Company had total assets of $30,392,060, an increase of $18,942,391 compared to $11,449,669 at the end of December 31, 2018. The substantial increase in total assets resulted primarily from the cash raised through the Debenture Financing and the adoption of IFRS 16 effective January 1, 2019, which resulted in the Company recognizing leases as right of use assets (representing its right to use the underlying assets).

As at June 30, 2019, the Company had total liabilities of $22,118,589, an increase of $17,284,363 compared to $4,834,226 at the end of December 31, 2018. The increase in total liabilities resulted primarily from the convertible debenture debt issued through the Debenture Financing and the adoption of IFRS 16 effective January 1, 2019, which resulted in the Company recognizing leases as lease liabilities (representing its obligation to make lease payments).

Off-Balance Sheet Arrangements

As of the date of this MD&A, the Company does not have any 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 directors and executive officers of the Company. Compensation of key management personnel may include short-term and long-term benefits as applicable, including salaries, bonuses, consulting fees and stock options. Compensation provided to current key management are as follows:

	3 months ended June 30, 2019	3 months ended June 30, 2018
Short-term benefits	$ 101,380	$ 66,000
Long-term benefits (*)		
	$ 101,380	$ 66,000

(*) 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 June 30, 2019, there was $nil (December 31, 2018 - $100,000) of outstanding payables to related parties, that is included in accounts payable and accrued liabilities.

During the three months ended June 30, 2019, the Company paid $7,500 (June 30, 2018 - $11,379) in rent for office space to a company related to the Company by virtue of a common executive officer and director. During the same period, the Company entered into a new lease agreement with the related company in respect of the office space, effective March 1, 2019, for a term of 5 years. Pursuant to the new lease agreement, the rent payable by the Company to the related company will be $30,000 per year for the first three years of the lease, and $32,070 per year for the last two years. The yearly rent was based on a fair value assessment completed by an independent appraiser.

During the three months ended June 30, 2019, the Company issued 125,000 common shares, at a deemed value of $25,000, to the chief financial officer and director of the Company as a bonus in recognition of such individual in connection with the Debenture Financing.

As at June 30, 2019, payable to a related party was a non-interest-bearing, unsecured, due on demand loan of $208,508 (December 31, 2018 - $208,779) for costs incurred for the build-out of the Spiritleaf-branded corporate retail cannabis store opened by Spirit Leaf Macleod.

Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value, issuable in series. As at June 30, 2019, the Company had 206,236,295 common shares and no preferred shares issued and outstanding.

The following table sets out the share capital structure of the Company as of the date of this MD&A, August 27, 2019:

Securities Outstanding	Number / Principal Amount Outstanding	Expiry Date	Exercise / Conversion Price	Number of Common Shares Outstanding / Issuable Upon Conversion or Exercise
Common shares	206,236,295			**206,236,295**
12% Senior Secured Convertible Debentures	$ 10,000,000.00	June 30, 2022	$ 0.25	**40,000,000**
Stock Options	8,187,500	February 28, 2023	$ 0.10	8,187,500
Stock Options	5,500,000	December 10, 2023	$ 0.20	5,500,000
Stock Options	280,000	June 1, 2024	$ 0.20	280,000
Stock Options	120,000	June 24, 2024	$ 0.20	120,000
Agent's Options	2,500,000	July 31, 2020	$ 0.15	2,500,000
Compensation options	2,292,800	November 24, 2020	$ 0.25	2,292,800
Options				**18,880,300**
Warrants	150,000	December 31, 2019	$ 0.10	150,000
Warrants	100,000	December 31, 2019	$ 0.10	100,000
Warrants	500,000	April 3, 2023	$ 0.10	500,000
Warrants	300,000	April 3, 2023	$ 0.10	300,000
Warrants	100,000	May 11, 2020	$ 0.10	100,000
Warrants	600,000	May 11, 2020	$ 0.15	600,000
Warrants	3,750,000	June 22, 2020	$ 0.30	3,750,000
Warrants	661,765	June 22, 2020	$ 0.30	661,765
Warrants	100,000	July 23, 2020	$ 0.30	100,000
IPO Warrants	12,500,000	July 31, 2020	$ 0.30	12,500,000
Warrants	3,529,412	July 31, 2020	$ 0.30	3,529,412
Warrants	7,500,000	July 31, 2020	$ 0.30	7,500,000
Warrants	360,500	August 28, 2020	$ 0.28	360,500
Debenture Unit Warrants	20,000,000	November 24, 2020	$ 0.25	20,000,000
Warrants	100,000	December 10, 2020	$ 0.30	100,000
Warrants	150,000	December 10, 2020	$ 0.20	150,000
Warrants				**50,401,677**
Fully diluted				**315,518,272**

Common Shares

During the three months ended June 30, 2019, the Company issued an aggregate of 12,981,299 common shares, comprised of (i) 287,500 common shares issued at a price of $0.10 per share pursuant to stock option exercises; (ii) 250,000 common shares issued at a price of $0.20 per share in satisfaction of bonuses granted by the Company to two individuals in recognition of their contributions in connection with the Debenture Financing; (iii) 5,000,000 common shares issued at a price of $0.20 per share to the Ontario Partner pursuant to the partnership arrangement between the parties; and (iv) 7,443,799 common shares issued at an aggregate value of $1.5 million to Tilray, Inc. pursuant to the terms of the investment agreement entered in December 2018, as amended.

Stock Options

During the three months ended June 30, 2019, a total of 400,000 options were granted at a price of $0.20 per share to employees and an officer of the Company pursuant to the Company's stock option plan. During the same period, 167,500 options were exercised and 50,000 options were forfeited without being exercised. As at June 30, 2019, the Company had 14,097,500 options outstanding.

Convertible Debentures

On May 24, 2019, the Company completed the first closing of its short form prospectus offering (the "**Debenture Financing**") of debenture units (the "**Debenture Units**") for aggregate gross proceeds of $9,270,000. Each Debenture Unit consisted of (i) one 12% senior secured convertible debenture of the Issuer (each, a "**Convertible Debenture**") in the principal amount of $1,000 with interest payable semi-annually in arrears on June 30 and December 31 of each year, commencing June 30, 2020, and maturing on June 30, 2022, and (ii) 2,000 common share purchase warrants of the Issuer (each, a "**Unit Warrant**"), each entitling the holder thereof to purchase one common share in the capital of the Issuer at an exercise price equal to $0.25 until November 24, 2019. The Debenture Financing was made through a syndicate of agents (the "**Agents**"). In connection with the Debenture Financing, the Issuer issued the Agents 2,088,400 non-transferrable compensation options (the "**Compensation Options**"), each entitling the holder thereof to acquire one common share of the Issuer at an exercise price of $0.25 per share until November 24, 2020.

On June 7, 2019, the Company completed the second and final closing of the Debenture Financing for additional gross proceeds of $730,000, resulting in aggregate proceeds to the Company under the Debenture Financing of $10 million. In connection with the second and final closing, the Company issued to the Agents an aggregate of 204,400 Compensation Options.

Recently Adopted Accounting Pronouncements

IFRS 16, Leases

On January 13, 2016, the IASB published a new standard, IFRS 16, "Leases". The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted but only if the entity is also applying IFRS 15, "Revenue from contracts with customers". Under the new standard, a lessee recognizes a right-of-use asset and a lease liability. The right-of- use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest.

Effective January 1, 2019, the Company adopted IFRS 16, Leases ("**IFRS 16**"), which supersedes previous accounting standards for leases, including IAS 17, Leases, and IFRIC 4, Determining whether an arrangement contains a lease. IFRS 16 introduces a single lessee accounting model, unless the underlying asset is of low value, and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

As a result of adopting IFRS 16, effecting January 1, 2019 the Company has recognized a significant increase to both assets and liabilities on its Interim Condensed Consolidated Statements of Financial Position, as well as a decrease to operating expenses (for the removal of base rent expense for leases), an increase to depreciation (due to the depreciation of the right-of-use asset), and an increase to finance costs (due to accretion of the lease liability). Leasehold inducements, store closure costs and average rent adjustments (which were previously included in accounts payable and accrued liabilities) and onerous lease provisions are no longer recognized as separate liabilities and are included in the calculation of right-of-use assets under IFRS 16.

The Company adopted IFRS 16 using the modified retrospective method and has not restated comparatives for the 2018 reporting periods, as permitted under the specific transitional provisions in the standard. The cumulative effect of initially applying the new standard is recognized as an adjustment to the opening deficit within the shareholders' equity balance as at January 1, 2019.

Critical Accounting Estimates

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

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

Use of estimates and judgments

The preparation of the 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 ("**ECLs**"). 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-owned store in the Spirit Leaf Division and the Watch it! Division 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 $168,250 after tax. An equal change in the opposite direction would have decreased equity by $168,250 after tax.

Fair Value of Financial Instruments

At June 30, 2019, 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 quarters ended June 30, 2019 and 2018, 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 retail cannabis stores and other franchise retail cannabis 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 branding, marketing, sales and client support. The Company may not have sufficient resources to maintain branding, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the proposed business, financial condition and operating results of the Company. The Company also competes with other recreational cannabis retail companies in the recruitment and retention of qualified employees.

Laws and regulations are subject to unforeseen changes

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

Shelf life inventory

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

Product liability

Due to the operations of the Spirit Leaf Division, 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 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 period ended June 30, 2019. 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 Cap in Ontario

The AGCO has indicated that the Temporary Cap will be maintained until December, 2019. While the Temporary Cap remains in place, franchisees of Spirit Leaf are not able to submit applications for retail operator licenses in the Province of Ontario. There is no assurance that the Temporary Cap will be lifted by the Government of Ontario, or, if the Temporary Cap is lifted by the Government of Ontario, that all, or any, of the franchisees of Spirit Leaf will be able to obtain retail operator licenses from the AGCO, 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 *Cannabis Licence Act*, 2018 (Ontario), 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.