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, 2020 and 2019 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 17 – Related Party Transactions in the Issuer's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019, 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, 2020, please refer to Note 14 – Share Capital in the Issuer's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019, 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 22, 2020	Common Shares	Private placement	6,000,000	$0.10	$600,000	Cash	Shareholder	n/a

(b) summary of options granted during the period,

For a summary of the options granted during the interim period ended June 30, 2020, please refer to Note 14(c) – Share Capital – Options in the Issuer's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019, 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 19, 2020	5,905,000	See CSE Form 9	Directors, officers, employees, and consultants	$0.16	June 19, 2025	$0.16

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 14 – Share Capital and Note 13 – Convertible Debentures in the Issuer's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019, 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**
Andrew MacMillan	**Director**
David Margolus	**Director**
Manjit Minhas	**Director**
Craig Steinberg	**Director**
Russell Wilson	**Director**
Frank Rochon	**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, 2020 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 24, 2020.

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, 2020**	Date of Report YY/MM/DD **20/08/24**
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**	

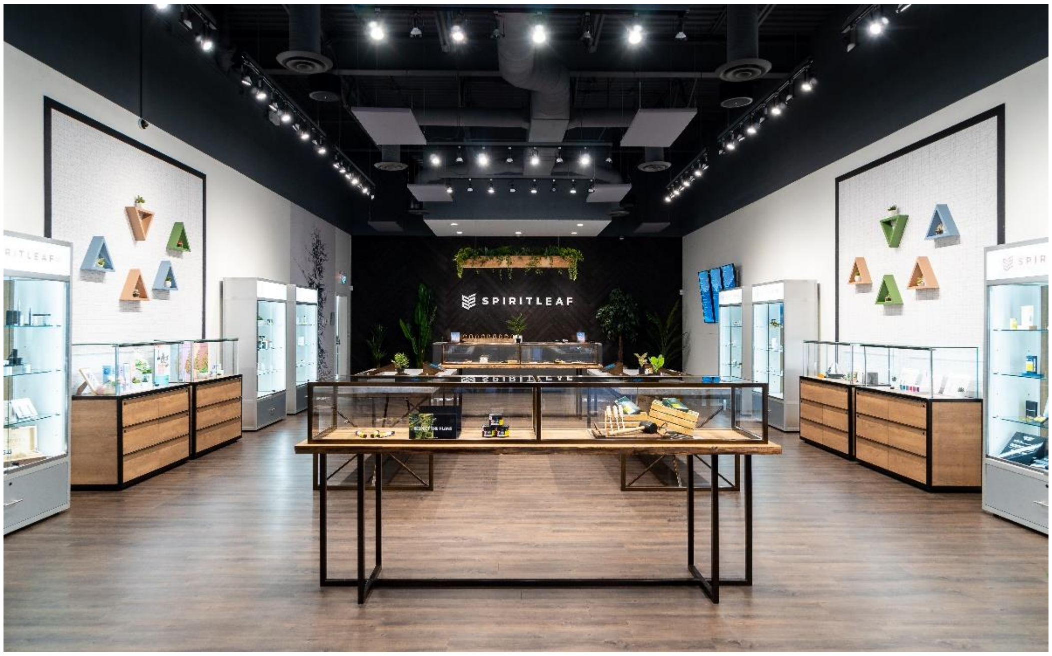
APPENDIX "A"

Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2020 and 2019

(*Attached*)



Inner Spirit Holdings Ltd.

Interim Condensed Consolidated Financial Statements
(Unaudited)
For the three and six months ended June 30, 2020 and 2019
(Expressed in Canadian Dollars unless otherwise stated)

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

As at	Notes	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS			
Current			
Cash		**$ 3,380,516**	$ 2,026,054
Short-term deposits		**-**	1,200,000
Accounts receivable		**1,499,017**	975,949
Marketable securities	4	**273,776**	630,988
Prepaid expenses and deposits		**527,805**	165,043
Inventory	6	**1,363,380**	1,415,730
Loans to franchise partners	8	**120,000**	260,064
Net investment in subleases	7	**1,307,727**	526,845
Total current assets		**8,472,221**	7,200,673
Non-current			
Investments	5	**71,434**	71,434
Loans to franchise partners	8	**-**	279,819
Franchise inducements	9	**978,603**	1,035,111
Store permits	9	**2,139,010**	2,502,866
Lease deposits	7	**292,211**	872,876
Right-of-use assets	7	**3,572,523**	5,490,969
Net investment in subleases	7	**5,234,651**	2,137,222
Property and equipment	10	**3,765,609**	3,158,738
Total assets		**$ 24,526,262**	$ 22,749,708
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities		**$ 1,061,754**	$ 884,622
Convertible debentures interest payable	13	**-**	723,300
Current portion of lease liabilities	7	**2,077,461**	1,752,654
Franchise fee deposits	11	**245,000**	72,500
Prepaid sales deposits from franchises		**80,000**	-
Deferred revenue	4	**341,031**	341,031
Payable to non-controlling interest	16	**311,671**	311,671
Unredeemed gift card liability	12	**6,152**	1,868
Total current liabilities		**4,123,069**	4,087,646
Non-current			
Franchise fee deposits	11	**445,000**	795,000
Lease liabilities	7	**8,502,651**	6,902,134
Financial guarantee liability	7	**321,958**	305,921
Convertible debenture	13	**9,306,034**	8,241,873
Deferred revenue	4	**526,105**	696,621
CEBA loans		**120,000**	-
Total liabilities		**23,344,817**	21,029,195
Equity			
Share capital	14	**23,272,884**	21,007,107
Contributed surplus		**2,637,390**	1,355,536
Conversion feature on convertible debentures	13	**497,211**	497,211
Warrants	13,14d	**2,503,038**	3,415,982
Deficit		**(27,375,301)**	(24,223,704)
Equity attributable to owners of the company		**1,535,222**	2,052,132
Non-controlling interest	16	**(353,777)**	(331,619)
Total shareholders equity		**1,181,445**	1,720,513
Total liabilities and shareholders equity		**$ 24,526,262**	$ 22,749,708

Nature of operations and going concern (Note 1)

Subsequent events (Note 22)

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

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

For the Three and Six Months Ended June 30, 2020 and 2019

		Three months ended June 30		Six months ended June 30	
For the three and six months ended June 30,		**2020**	2019	**2020**	2019
Revenue	Notes				
Retail		**$ 3,587,773**	$ 31,864	**$ 6,228,836**	$ 39,942
Royalties		**842,894**	229,829	**1,581,019**	323,468
Advertising		**172,714**	45,966	**320,663**	64,694
Millwork		**429,392**	312,315	**756,850**	503,487
Franchise fee		**167,500**	57,500	**241,250**	101,250
Supply and other		**221,777**	125,269	**427,183**	209,685
Total revenue		**5,422,050**	802,743	**9,555,801**	1,242,526
Cost of sales	6	**2,881,177**	345,144	**5,047,860**	549,178
Gross profit		**2,540,873**	457,599	**4,507,941**	693,348
Operating expenses					
Salaries, wages, and benefits		**1,047,476**	560,713	**2,152,070**	996,927
Sales and marketing		**222,834**	169,232	**418,236**	253,478
General and administrative		**531,610**	1,634,233	**1,167,333**	2,506,581
Occupancy costs		**225,596**	288,681	**391,192**	398,069
Right-of-use assets depreciation	7	**170,644**	143,820	**342,657**	530,796
Depreciation and amortization	9,10	**369,328**	111,491	**736,659**	190,938
Total operating expenses		**2,567,488**	2,908,170	**5,208,147**	4,876,789
Operating loss before other expenses		**(26,615)**	(2,450,571)	**(700,206)**	(4,183,441)
Unrealized loss (gain) on marketable securities	4	**-**	(208,991)	**357,212**	(281,528)
Realized loss on marketable securities	4	**3,046**	-	**-**	-
Gain on sublease arrangement	7	**(533)**	-	**(210,538)**	-
Financial guarantee liability expense	7	**(27,845)**	-	**16,037**	-
Finance income	7	**(289,353)**	-	**(548,812)**	-
Interest expense (accretion) - leases	7	**462,282**	-	**923,363**	-
Interest expense	13	**199,884**	254,737	**503,217**	329,492
Convertible debenture accretion	13	**532,080**	-	**1,064,161**	-
Share-based compensation	14c	**323,412**	55,111	**368,909**	55,111
		1,202,973	100,857	**2,473,549**	103,075
Net loss for the period from continuing operations		**$ (1,229,588)**	$ (2,551,428)	**$ (3,173,755)**	$ (4,286,516)
Net loss for the period from discontinued operations	1	**-**	(258,255)	**-**	(527,992)
Net loss and comprehensive loss for period		**$ (1,229,588)**	$ (2,809,683)	**$ (3,173,755)**	$ (4,814,508)
Net loss and comprehensive loss attributed to:					
Owners of the Company		**(1,222,421)**	(2,798,757)	**(3,151,597)**	(4,790,775)
Non-controlling interest	16	**(7,167)**	(10,926)	**(22,158)**	(23,733)
Net loss per share - Basic and diluted	15	**($0.01)**	($0.02)	**($0.01)**	($0.04)
Net loss per share - continuing operations - Basic and diluted	15	**($0.01)**	($0.02)	**($0.01)**	($0.03)
Net loss per share - discontinued operations - Basic and diluted	15	**$0.00**	($0.00)	**$0.00**	($0.01)

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

	Notes	Number of common shares	Share capital	Contributed surplus	Equity portion of convertible debentures	Warrants	Deficit	Non-controlling interest ("NCI")	Total
Balance, December 31, 2018		186,179,524	$ 16,971,660	$ 725,137	$ -	$ 1,948,801	$ (12,984,037)	$ -	$ 6,661,561
Franchise acquisitions	14	7,075,472	1,500,000	-	-	-	-	-	1,500,000
Exercise of options	14c	287,500	28,750	-	-	-	-	-	28,750
IFRS 16 adjustment	14	-	-	-	-	-	(284,426)	-	(284,426)
Bonus	14	250,000	50,000	-	-	-	-	-	50,000
Franchise inducement	14	5,000,000	1,000,000	-	-	-	-	-	1,000,000
Tilray equity swap	14	7,443,799	1,500,000	-	-	-	-	-	1,500,000
Share based compensation	14	-	-	55,111	-	-	-	-	55,111
Debenture Issuance	14	-	-	-	1,038,238	1,584,863	-	-	2,623,101
Net loss and comprehensive loss		-	-	-	-	-	(4,814,508)	23,733	(4,790,775)
Balance, June 30, 2019		206,236,295	$ 21,050,410	$ 780,248	$ 1,038,238	$ 3,533,664	$ (18,082,971)	$ 23,733	$ 8,343,322
Balance, December 31, 2019		**206,236,295**	**$ 21,007,107**	**$ 1,355,536**	**$ 497,211**	**$ 3,415,982**	**$ (24,223,704)**	**$ (331,619)**	**$ 1,720,513**
Private placements	**14**	**22,854,542**	**2,285,454**	**-**	**-**	**-**	**-**	**-**	**2,285,454**
Share-based compensation	**14c**	**-**	**-**	**368,909**	**-**	**-**	**-**	**-**	**368,909**
Expiration of warrants	**14d**	**-**	**-**	**912,945**	**-**	**(912,944)**	**-**	**-**	**1**
Share issuance costs	**14**	**-**	**(19,677)**	**-**	**-**	**-**	**-**	**-**	**(19,677)**
Net loss and comprehensive loss		-	-	-	-	-	**(3,151,597)**	**(22,158)**	**(3,173,755)**
Balance, June 30, 2020		**229,090,837**	**$ 23,272,884**	**$ 2,637,390**	**$ 497,211**	**$ 2,503,038**	**$ (27,375,301)**	**$ (353,777)**	**$ 1,181,445**

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

For the six months ended June 30,	Notes		**2020**		2019
Cash provided by (used in) the following activities:					
Operating					
Net loss for the period		**$**	**(3,173,755)**	$	(4,814,508)
Adjustments for:					
Non-cash deferred revenue	4		**170,516**		137,782
Unrealized loss (gain) on marketable securities	4		**357,212**		(281,528)
Right-of-use assets depreciation	7		**342,657**		798,044
Gain on subleasing arrangements	7		**(210,538)**		-
Financial guarantee liability expense	7		**16,037**		-
Finance income	7		**(548,812)**		-
Interest expense (accretion) - leases	7		**923,363**		-
Fair value adjustment, net of accretion on loans to franchises	8		**(96,784)**		-
Amortization and depreciation	9,10		**736,659**		190,938
Convertible debenture accretion	13		**1,064,161**		-
Share-based compensation	14c		**368,909**		55,111
Changes in non-cash working capital balances	21		**77,135**		218,197
Cash flow provided by (used) in operating activities			**26,760**		(3,695,964)
Financing					
Lease payments, net of amounts paid directly by sublease	7		**(541,211)**		(611,482)
Loan to franchise partners	8		**(50,000)**		-
Receipt of repayment of loan to franchise partners	8		**566,667**		-
Franchise fee deposits	11		**(110,318)**		-
Issuance of convertible debentures	13		**-**		10,000,000
Issuance of share capital, net of issuance costs	14		**2,265,777**		4,078,750
Payable to non-controlling interest	16		**-**		(271)
CEBA loans			**120,000**		-
Cash flow provided by financing activities			**2,250,915**		13,466,997
Investing					
Acquisition of Tilray shares	4		**-**		(1,500,000)
Franchise inducements	9		**-**		(1,251,850)
Acquisition of store permits	9		**-**		(2,402,026)
Acquisition of property and equipment	10		**(1,270,809)**		(1,028,681)
Disposition of property and equipment	10		**347,596**		-
Acquisition of franchise stores	10		**-**		(1,143,079)
Cash flow used in investing activities			**(923,213)**		(7,325,636)
Change in cash			**1,354,462**		2,445,397
Cash, beginning of period			**2,026,054**		3,375,588
Cash, end of period		**$**	**3,380,516**	$	5,820,985

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Inner Spirit Holdings Ltd. (“Inner Spirit” or the “Company”) was incorporated under the Business Corporations Act (Alberta) on March 16, 2017. The Company was amalgamated under the Business Corporations Act (Alberta) on August 31, 2017 with 2043246 Alberta Ltd. to continue as Inner Spirit Holdings Ltd.

The Company has four operating subsidiaries: (i) Spirit Leaf Inc. ("Spirit Leaf Inc"), which is wholly-owned by the Company; (ii) Spirit Leaf Macleod Inc. ("Spirit Leaf Macleod"), of which the Company owns 50.1% of the outstanding voting shares; (iii) Spirit Leaf Corporate Inc. ("Spirit Leaf Corporate"), which is wholly-owned by the Company, and (iv) Spirit Leaf Ontario Inc. ("Spirit Leaf Ontario"), which is wholly-owned by the Company, (collectively referred to as “Spirit Leaf”). The subsidiaries were incorporated under the laws of the Province of Alberta (other than Spirit Leaf Ontario which was incorporated under the laws of the Province of Ontario), are headquartered in Calgary, Alberta, and are extra-provincially registered in the various jurisdictions in which they operate. Spirit Leaf Inc.’s primary business is the planned opening and ongoing support of franchise retail cannabis stores in Canadian jurisdictions where the private sale of recreational cannabis is permitted. Spirit Leaf Macleod’s primary business is the current operation of a corporate retail cannabis store in Alberta. Spirit Leaf Corporate's primary business is the current operation and planned opening of wholly-owned corporate retail cannabis stores in Alberta, Saskatchewan and Manitoba. Spirit Leaf Ontario's primary business is the current operation and planned opening of wholly-owned corporate retail cannabis stores in Ontario.

The Company has a fifth non-operating subsidiary, Watch It! Consolidated Ltd. ("Watch It!"), which is wholly-owned by the Company. Watch It! filed a Notice of Intention to Make a Proposal pursuant to the provisions of Division I of Part III of the Bankruptcy and Insolvency Act (Canada) on November 29, 2019. Watch It! was deemed bankrupt on December 31, 2019, and the Company closed its corporate Watch It! operations and sold the remaining assets and trademark to a former franchise owner who continues to independently operate two stores and the related e-commerce business. The historical operations of Watch It! have been accounted for as discontinued operations.

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

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

During the six months ended June 30, 2020, the Company incurred a net loss and comprehensive loss of $3,173,755 (June 30, 2019 - $4,814,508) and, as of that date, had a deficit of $27,375,301 (December 31, 2019 - $24,223,704).

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

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

2. BASIS OF PRESENTATION

Statement of compliance

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 Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2019 available on SEDAR at www.sedar.com.

These Financial Statements were approved and authorized by the Board of Directors on August 24, 2020.

2. BASIS OF PRESENTATION (CONTINUED)

Basis of measurement

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

Basis of consolidation

The Financial Statements include the ownership percentages of Inner Spirit's subsidiaries, all of which are domiciled in Canada:

Entity Name	Ownership Percentage
Spirit Leaf Inc.	100%
Spirit Leaf Corporate Inc.	100%
Spirit Leaf Ontario Inc.	100%
Spirit Leaf Macleod Inc.	50.1%

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

Non-controlling interest

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 Financial Statements include 100% of the assets and liabilities of 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 and its subsidiaries' functional 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 accounting policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the audited consolidated financial statements for the year ended December 31, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

Please refer to the December 31, 2019 audited consolidated financial statements and accompanying notes for a description of the significant accounting policies used by the Company. The policies set out in the Company's December 31, 2019 audited consolidated financial statements were consistently applied to all periods presented. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019.

4. MARKETABLE SECURITIES

Fair market value, at acquisition	$	1,577,812
Unrealized loss		(946,824)
Fair market value, December 31, 2019	$	630,988
Unrealized loss		(357,212)
Fair market value, June 30, 2020	$	273,776

i) 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 $1,577,812 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 valued at $1,525,979 at a market price of $0.22 per common share (Note 14 b(v)).

The difference between the fair values of the shares exchanged was recorded as deferred revenue on initial recognition and is being recognized in the consolidated statement of loss and comprehensive loss on a straight-line basis over the term of the agreement. The Company recorded $10,354 (December 31, 2019 - $10,677) as a current liability in the consolidated statement of financial position, and $5,178 (June 30, 2019 - $nil) has been recognized as revenue in the consolidated statement of loss and comprehensive loss. The remaining non-current liability is $20,185 (December 31, 2019 - $25,364).

In addition, during 2019, the Company received a loan of $1,500,000 from Tilray, which was fully repaid during the year. The Company incurred interest expense of $42,111 on this loan.

Subsequent to June 30, 2020, the Company sold 28,361 Tilray Shares for proceeds, net of selling costs of $269,469, to hold nil Tilray Shares.

ii) On February 6, 2018, the Company issued 15,000,000 common shares at $0.10 per share to Auxly Cannabis Group Inc., ("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 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.

The Company entered into an agreement with Auxly on January 31, 2019, which gives Auxly the commercial right to supply the Company up to 50% of all of its cannabis and cannabis inputs and provides for profit sharing between the parties up to January 8, 2023. Based on their agreement, the Company has determined to recognize the deferred revenue on a straight line basis over the term of the agreement and has therefore recorded $330,677 (December 31, 2019 - $330,677) as a current liability in the consolidated statement of financial position, and $165,338 (June 30, 2019 - $137,782) has been recognized as revenue in the consolidated statement of loss and comprehensive loss. The remaining non-current liability is $505,920 (December 31, 2019 - $671,257).

During 2019, the Company sold the remaining balance of 71,235 Auxly Shares for proceeds, net of selling costs of $525,759, to hold nil Auxly shares as of December 31, 2019. During the period ended June 30, 2020, the Auxly Warrants expired unexercised, out of the money.

5. INVESTMENTS

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”). During the year ended December 31, 2019, the shares in Hightimes were received by the Company. As at June 30, 2020, the fair market value of the investment was $71,434 (December 31, 2019 - $71,434).

		30-Jun-20		31-Dec-19
Fair market value, beginning	$	71,434	$	149,710
Unrealized loss		-		(78,276)
Fair market value, ending	$	71,434	$	71,434

6. INVENTORY

		30-Jun-20		31-Dec-19
Spirit Leaf merchandise	$	1,088,007	$	261,685
Millwork		275,373		1,154,045
	$	1,363,380	$	1,415,730

Inventory costs included in cost of sales		30-Jun-20		30-Jun-19
Expensed inventories Spirit Leaf merchandise	$	4,257,666	$	69,692
Expensed inventories millwork		729,261		478,195
Expensed inventories other		60,933		1,291
	$	5,047,860	$	549,178

Included in cost of sales for the six months ended June 30, 2020 are inventory write-downs for damaged inventory and inventory shrinkage in the amount of $5,880 (June 30, 2019 - $nil).

7. LEASES

Right-of-use assets:

Below is a summary of the activities related to the right-of-use assets for the six months ended June 30, 2020.

Cost		30-Jun-20		31-Dec-19
Cost, beginning balance	$	6,662,847	$	4,790,127
Additions during the period		2,409,613		4,664,108
Terminations during the period		-		(457,917)
Derecognition upon sub-lease, during the period		(3,992,648)		(2,333,471)
Cost, ending balance	$	5,079,812	$	6,662,847
Accumulated depreciation				
Beginning balance	$	(1,171,878)	$	-
Depreciation for the period - Continuing operations		(342,657)		(809,184)
Depreciation for the period - Discontinued operations		-		(362,694)
Derecognition upon sub-lease, during the period		7,246		-
Ending balance	$	(1,507,289)	$	(1,171,878)
Net book value	$	3,572,523	$	5,490,969

7. LEASES (CONTINUED)

Below is a summary of the activity related to the net investment in subleases for the six months ended June 30, 2020.

	30-Jun-20	31-Dec-19
Net investment in subleases, beginning	$ 2,664,067	$ 207,680
Additions during the period	4,195,407	2,337,315
Finance income	548,812	234,930
Rents recovered (payments made directly to landlords)	(673,187)	(115,858)
Terminations	(192,721)	-
Net investment in subleases, ending	$ 6,542,378	$ 2,664,067
Of which are:		
Current portion	$ 1,307,727	$ 526,845
Non-current portion	$ 5,234,651	$ 2,137,222

The Company recorded a gain of $210,538 (June 30, 2019 - $nil) in its sublease arrangements.

Lease liability

Below is a summary of the activity related to the lease liabilities for the six months ended June 30, 2020.

	30-Jun-20	31-Dec-19
Beginning balance	$ 8,654,788	$ 4,997,807
Additions during the period	2,409,613	4,664,108
Terminations during the period	(193,254)	(493,566)
Accretion of lease liabilities - Continuing operations	923,363	1,190,988
Accretion of lease liabilities - Discontinued operations	-	112,025
Lease payments	(1,214,398)	(1,816,574)
Lease liabilities, ending balance	$ 10,580,112	$ 8,654,788
Of which are:		
Current lease liabilities	$ 2,077,461	$ 1,752,654
Non-current lease liabilities	$ 8,502,651	$ 6,902,134

Subsequent to June 30, 2020, the Company terminated three leases.

8. LOANS TO FRANCHISE PARTNERS

During the year ended December 31, 2019, the Company provided loans to a number of its franchise partners totaling $695,000. Of the total loans, $195,000 of the loans had an annual interest rate of 12%, with final payments due within 1 year of loan. These loans also had a 2% loan fee, which was deducted from initial loan advance. The balance of the loans amounting to $500,000 was issued during the year concurrent with the franchise inducement (Note 9) that was an interest free promissory note with repayment terms of $8,333 per month, repayable over five years. The interest free promissory note had a fair value adjustment since it was interest free, and this fair market adjustment was calculated based on discounted cash flow using the market rate of interest of 12% over the term of the promissory note.

During the period ended June 30, 2020, the Company entered into an asset purchase agreement with a franchisee and acquired all of the assets of the Kingston, Ontario franchise. The interest free loan was repaid as part of the acquisition.

8. LOANS TO FRANCHISE PARTNERS (CONTINUED)

		30-Jun-20		31-Dec-19
Balance, beginning of period	$	539,883	$	-
Loans issued in period		50,000		695,000
Repayments during the period		(566,667)		(58,333)
Fair value adjustment		136,265		(136,265)
Accretion for the period		(39,481)		39,481
Balance, end of period	$	120,000	$	539,883
Of which are:				
Current portion	$	120,000	$	260,064
Non-current portion	$	-	$	279,819

9. INTANGIBLE ASSETS

Cost		Store permits		Franchise inducements		Total
December 31, 2018	$	713,993	$	-	$	713,993
Additions		2,057,042		1,133,867		3,190,909
December 31, 2020	$	2,771,035	$	1,133,867	$	3,904,902
Additions		-		-		-
Dispositions		-		-		-
June 30, 2020	$	2,771,035	$	1,133,867	$	3,904,902
Accumulated amortization						
December 31, 2018	$	-	$	-	$	-
Amortization for the year		(268,169)		(98,756)		(366,925)
December 31, 2019	$	(268,169)	$	(98,756)	$	(366,925)
Dispositions		-		-		-
Amortization for the period		(363,856)		(56,508)		(420,364)
June 30, 2020	$	(632,025)	$	(155,264)	$	(787,289)
Net book value						
December 31, 2019	$	2,502,866	$	1,035,111	$	3,537,977
June 30, 2020	$	2,139,010	$	978,603	$	3,117,613

During the year ended December 31, 2019, the Company incurred costs of $1,133,867 as an inducement to an Ontario lottery winner to enter into a business partnership to operate a Spiritleaf store in Kingston, Ontario. The franchise inducement is accounted for as an intangible asset and is being amortized as per the Company's accounting policy.

During the period ended June 30, 2019, the Company acquired the Kingston store and will continue to amortize the inducement over the course of the lease at that location.

10. PROPERTY AND EQUIPMENT

Cost	Computer equipment	Furniture and fixtures	Vehicle	Leasehold improvements	Total
December 31, 2018	$ 67,764	$ 764,312	$ 27,557	$ 1,736,584	$ 2,596,217
Additions	57,905	621,418	27,006	1,561,770	2,268,099
December 31, 2019	$ 125,669	$ 1,385,730	$ 54,563	$ 3,298,354	$ 4,864,316
Adjustment	(9,038)	(274,970)	-	(814,673)	(1,098,681)
Additions	24,807	299,792	-	946,210	1,270,809
Dispositions	-	(58,514)	-	(289,082)	(347,596)
June 30, 2020	$ 141,438	$ 1,352,038	$ 54,563	$ 3,140,809	$ 4,688,848
Accumulated depreciation					
December 31, 2018	(28,555)	(324,604)	(4,134)	(889,708)	(1,247,001)
Depreciation for the year	(37,163)	(144,006)	(11,078)	(266,330)	(458,577)
December 31, 2019	$ (65,718)	$ (468,610)	$ (15,212)	$ (1,156,038)	$ (1,705,578)
Adjustment	9,038	274,970	-	814,673	1,098,681
Depreciation for the period	(17,321)	(93,120)	(5,903)	(199,998)	(316,342)
June 30, 2020	$ (74,001)	$ (286,760)	$ (21,115)	$ (541,363)	$ (923,239)
Net book value					
December 31, 2019	$ 59,951	$ 917,120	$ 39,351	$ 2,142,316	$ 3,158,738
June 30, 2020	$ 67,437	$ 1,065,278	$ 33,448	$ 2,599,446	$ 3,765,609

11. FRANCHISE FEE DEPOSITS

The Company has a franchise model associated with its Spirit Leaf operations. The Company charges an upfront franchise fee with refundable and non-refundable portions. Refundable portions are deposited into a segregated savings account apart from the Company's operating accounts. Franchise fee deposits are accounted for as a non-current liability, except for those initial fees expected to be earned or refunded with the next 12 months.

	Non-Refundable	Refundable	Total
Balance as of December 31, 2018	$ 610,100	$ 1,232,500	$ 1,842,600
Terminated franchises	(35,000)	(500,000)	(535,000)
Redrafted Ontario franchises	(155,000)	180,000	25,000
New franchises sold	-	100,000	100,000
Store openings	293,750	(293,750)	-
Franchise fees earned	(292,600)	(272,500)	(565,100)
Balance as of December 31, 2019	$ 421,250	$ 446,250	$ 867,500
Current portion, December 31, 2019			$ 72,500
Long term portion, December 31, 2019			$ 795,000
Terminated franchises	$ (15,000)	$ (50,250)	$ (65,250)
New franchises sold	28,750	125,250	154,000
Store openings	121,250	(72,500)	48,750
Franchise fees earned	(241,250)	(73,750)	(315,000)
Balance as of June 30, 2020	$ 315,000	$ 375,000	$ 690,000
Current portion, June 30, 2020			$ 245,000
Long term portion, June 30, 2020			$ 445,000

12. UNREDEEMED GIFT CARD LIABILITY

The Company has outstanding $6,152 (December 31, 2019 - $1,868) of unredeemed gift card liabilities that have been purchased by customers for use at its Spirit Leaf stores.

13. CONVERTIBLE DEBENTURES

The fair value and related movement for each of the components of the convertible debentures, conversion feature on convertible debentures and warrants is as follows:

	Convertible Debentures (financial liability)	Conversion feature on Convertible Debentures	Warrants	Total
Upon initial recognition	$ 8,014,081	$ 558,393	$ 1,427,526	$ 10,000,000
Less: Issuance costs	(878,100)	(61,182)	(156,414)	(1,095,696)
Accretion during the year	1,105,892	-	-	1,105,892
Balance as at December 31, 2019	$ 8,241,873	$ 497,211	$ 1,271,112	$ 10,010,196
Accretion during the period	1,064,161	-	-	1,064,161
Balance as at June 30, 2020	$ 9,306,034	$ 497,211	$ 1,271,112	$ 11,074,357

For the six months ended June 30, 2020, the accrued interest on the convertible debentures totaled $nil (December 31, 2019 – $723,300), due to accrued interest being paid on June 30, 2020. Interest expense for the six months ended June 30, 2020 amounted to $600,000 (June 30, 2019 – $nil) and is recorded in the consolidated statement of loss and comprehensive loss.

14. 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, 2018		186,179,524	$ 16,971,660
Franchisee acquisitions	14b(i)	7,075,472	1,556,604
Exercise of options	14b(ii)	287,500	52,864
Shares issued for services	14b(iii)	250,000	50,000
Franchisee inducement	14b(iv)	5,000,000	850,000
Tilray investment	14b(v)	7,443,799	1,525,979
Balance, December 31, 2019		206,236,295	$ 21,007,107
Private placements	14b(vi)	22,854,542	2,285,454
Share issuance costs		-	(19,677)
Balance, June 30, 2020		229,090,837	$ 23,272,884

14. SHARE CAPITAL (CONTINUED)

(i) During the year ended December 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 a fair market price equal to $0.22 per share ($1,556,604 at fair value), $250,000 was paid in cash, and $250,000 was paid through a promissory note due one year after the closing of the acquisition.

(ii) During the year ended December 31, 2019, a total of 287,500 shares were issued at a price of $0.10 per share pursuant to options exercised. The fair value of these options of $24,114 was transferred from contributed surplus to share capital.

(iii) During the year ended December 31, 2019, a total of 250,000 shares were issued at a price of $0.20 per share for payment of services.

(iv) During the year ended December 31, 2019, a total of 5,000,000 shares were issued at a price of $0.17 per share as an inducement for a franchisee (Note 9).

(v) During the year ended December 31, 2019, a total of 7,443,799 shares were issued to Tilray pursuant to an investment agreement between the Company and Tilray (Note 4(i)).

(vi) During the six months ended June 30, 2020, a total of 22,854,542 shares were issued at a price of $0.10 per share for gross proceeds of $2,285,454 pursuant to private placements.

(vii) Subsequent to June 30, 2020, a total of 106,383 shares were issued at a price of $0.14 per share, for services rendered.

(c) Options

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

As at June 30, 2020, the following options are outstanding.

	Note	Number of options	Weighted average exercise price
Balance, December 31, 2018		14,585,000	$0.14
Issued during year		2,065,000	$0.14
Exercised during year	14b(ii)	(287,500)	$0.10
Forfeited during year		(660,000)	$0.10
Balance, December 31, 2019		15,702,500	$0.14
Exercisable, December 31, 2019		7,171,250	$0.14
Issued during the period		6,405,000	$0.16
Forfeited during period		(755,000)	$0.13
Balance, June 30, 2020		21,352,500	$0.14
Exercisable, June 30, 2020		10,522,500	$0.14

During the six months ended June 30, 2020, the Company granted 500,000 options with an exercise price of $0.10 per share and 5,905,000 options with an exercise price of $0.16 per share. During 2019, the Company granted 400,000 options with an exercise price of $0.20 per share and 1,665,000 options with an exercise price of $0.11 per share. One quarter of the stock options vest immediately and the remaining stock options granted vest one quarter on each of the first, second, and third anniversary of the grant date.

14. SHARE CAPITAL (CONTINUED)

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

	30-Jun-20	31-Dec-19
Risk free interest rate (%)	1.35%	1.34% - 1.5%
Expected life (years)	5	5
Volatility rate (%)	123%	98%-115%
Dividend yield (%)	0%	0%
Forfeiture rate (%)	12.00%	12.00%

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

The following table summarizes information about the share options outstanding and exercisable as at June 30, 2020.

Options outstanding	Weighted average exercise price	Weighted average remaining term (years)	Options exercisable
8,222,500	$0.10	2.79	5,835,000
1,605,000	$0.11	4.40	401,250
5,905,000	$0.16	4.97	1,476,250
5,620,000	$0.20	3.48	2,810,000
21,352,500	$0.14	3.70	10,522,500

The share-based compensation expense recognized during the six months ended June 30, 2020, for these options was $368,909 (June 30, 2019 - $55,111).

(d) Warrants

The following table summarizes the balance of warrants outstanding and exercisable as at June 30, 2020 and December 31, 2019 as well as it provides the summary of transactions the period:

	Notes	Number of warrants	Amount	Weighted average exercise price	Weighted average expiry date (years)
Balance, December 31, 2018		32,901,677	$ 1,948,801	$0.29	0.63
Issued for services		2,792,800	196,069	$0.22	1.16
Convertible debenture warrants	13	20,000,000	1,271,112	$0.25	1.16
Balance, December 31, 2019		55,694,477	$ 3,415,982	$0.27	1.29
Exercisable, December 31, 2019		54,894,477		$0.28	0.82
Expired or cancelled during the period		(16,391,177)	(912,944)	$0.29	
Balance, June 30, 2020		39,303,300	$ 2,503,038	$0.26	0.41
Exercisable, June 30, 2020		38,503,300		$0.26	0.37

14. SHARE CAPITAL (CONTINUED)

During the year ended December 31, 2019, the Company issued 2,792,800 warrants for consulting services as follows:

(i) warrants totalling 2,292,800 with fair value of $163,515 were provided to the agents involved in the convertible debenture financing as part of their fees (Note 13). The fair value of these warrants was recorded as convertible debenture issuance costs bifurcated between the components of convertible debenture and the corresponding credit amount recorded in warrants within equity.

(ii) warrants totalling 500,000 were provided to a real estate firm who has been assisting the Company in finding and negotiating leases for retail stores. These warrants were fair valued at $32,554 using Black-Scholes option pricing model (see assumptions used in the table below) and was recorded within share-based compensation expense during the year and the corresponding credit amount recorded in warrants within equity.

During the year ended December 31, 2019, the Company issued 20,000,000 warrants pursuant to the convertible debenture issuance (Note 13).

The share-based compensation expense recognized during the six months ended June 30, 2020 for the warrants was $nil (June 30, 2019 - $nil).

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

	30-Jun-20	31-Dec-19
Risk free interest rate (%)	1.56% - 1.58%	1.56% - 1.58%
Expected life (years)	1.5 - 2	1.5 - 2
Volatility rate (%)	97% - 115%	97% - 115%
Dividend yield (%)	0.00%	0.00%
Forfeiture rate (%)	0.00%	0.00%

During the six months ended June 30, 2020, a total of 15,441,177 warrants with exercise prices of $0.30 per share, were cancelled by agreement with the warrant holders.

During the six months ended June 30, 2020, a total of 950,000 warrants with exercise prices of $0.10 - $0.15 per share, expired unexercised.

(e) Securities held in escrow

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

As at June 30, 2020, a total of 20,341,205 common shares, 1,584,000 options, and 1,886,030 warrants remain in escrow.

15. NET LOSS PER COMMON SHARES

The calculation of basic and diluted loss per share for the six months ended June 30, 2020 was based on the net loss and comprehensive loss attributable to owners of the Company of $3,151,597 (June 30, 2019 – $4,790,775) divided by the weighted average number of common shares outstanding at the period ended of 222,743,675 (June 30, 2019 – 148,679,895).

The calculation of basic and diluted loss per share from continuing operations and discontinued operations for the period ended June 30, 2020 and 2019 was based on net loss and comprehensive loss from continuing operations and discontinued operations attributable to owners of the Company divided by the weighted average number of common shares outstanding at the year end as noted above.

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

16. NON-CONTROLLING INTEREST

As a June 30, 2020 and 2019, Inner Spirit owned 50.1% of Spirit Leaf Macleod Inc., and 1010805 Alberta Ltd. (“Numberco”) owned a 49.9% non-controlling interest (“NCI”) and holds 49.9% of the voting rights.

As at June 30, 2020, payable to non-controlling interest was a non-interest-bearing, unsecured, due on demand loan of $311,671 (December 31, 2019 - $311,671) for costs incurred for Spirit Leaf Macleod Inc.

		Numberco NCI Ownership		
Spirit Leaf Macleod Inc.		49.9%		
		30-Jun-20		31-Dec-19
Net loss and comprehensive loss	$	(44,404)	$	(572,146)
Total loss and comprehensive loss attributable to NCI		(22,158)		(285,501)
Accumulated deficit allocated to NCI		(331,619)		(46,118)
Total non-controlling interest	$	(353,777)	$	(331,619)
Current assets	$	182,264	$	121,255
Non-current assets		523,028		530,755
Current liabilities		(352,803)		(320,289)
Non-current liabilities		(244,764)		(204,764)
Net assets	$	107,725	$	126,957
Cash flows used in operating activities	$	(32,150)	$	(3,574)
Cash flows provided by financing activities		40,000		79,160
Cash flows used in investing activities		(7,727)		(50,221)
Net increase in cash	$	123	$	25,365

17. RELATED PARTY TRANSACTIONS

Key management

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

17. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Six months ended		30-Jun-20		30-Jun-19
Short-term benefits	$	184,867	$	101,380
Long-term benefits (*)		15,293		-
	$	200,160	$	101,380

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

Other related party transactions

During the six months ended June 30, 2020, the Company paid $60,935 (June 30, 2019 - $34,385) in total rent and operating costs to a company related to an executive officer and director. The yearly rent increased as the size of office space increased and was based on a fair value assessment completed by an independent appraiser.

Pursuant to the sales agreement with Auxly (Note 4(ii)), for the six months ended June 30, 2020, a total of $13,613 (June 30, 2019 – $nil) was paid or accrued to Auxly.

As at June 30, 2020, there was $15,213 (December 31, 2019 - $nil) of outstanding payables to related parties, that is included in accounts payable and accrued liabilities.

18. COMMITMENTS

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

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

		30-Jun-20
2020	$	73,546
2021	$	609,094
2022	$	714,040
2023	$	725,590
Thereafter	$	5,202,764

19. CAPITAL RISK MANAGEMENT

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach in the period. The Company considers its shareholders' equity as capital which, as at June 30, 2020, is $1,181,445 (December 31, 2019- $1,720,513).

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Credit risk

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

All of the Company's cash includes petty cash, store cash floats, and cash held at two financial institutions, one being a Canadian Chartered Bank and the other being a crown corporation owned by the Province of Alberta. Management believes that the risk of loss held at the banks is minimal. The Company has $nil (December 31, 2019 - $1,200,000) guaranteed investment certificate ("GIC") with a Canadian chartered bank with a 2% interest rate per annum with a maturity date of June 13, 2020. The GIC is cashable on demand at any point after 30 days from investment, and accrued interest will be paid up to the date of cashing in the GIC.

The accounts receivable balances totaling $1,499,017 (December 31, 2019 - $975,949) is net of provision for expected credit losses of $nil (December 31, 2019 - $61,480). The balance consists of receivables from Spirit Leaf's franchisees for franchisee fees, royalty and advertisement charges and for millwork sold. The net carrying value of accounts receivable as at the year-end represents the Company's maximum exposure to credit risk.

Accounts receivable	30-Jun-20	31-Dec-19
Current	$ 599,817	$ 342,882
31 – 60 days	373	2,570
61 – 90 days	96,952	9,532
Greater than 90 days	801,875	620,965
Accounts receivable	$ 1,499,017	$ 975,949

Management believes that the risk of loss on the loan to franchise partners (Note 8) is minimal, as the Company has vetted the franchise partners prior to entering into the franchise agreement, and has entered into a General Security Agreement with all loans extended. In the event of default, the Company has various remedies available to it including the ability to acquire the franchise in case of non-repayment of the loan and operate the franchise as a corporate store.

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

Liquidity risk

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

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

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 period.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

	Maturity			
As at June 30, 2020	Within 1 year	1-5 years	Greater than 5 years	Total
Accounts payables and accrued liabilities	$ 1,061,754	$ -	$ -	$ 1,061,754
Convertible debentures interest payable	-	-	-	-
Payable to non-controlling interest	311,671	-	-	311,671
Refundable franchise fee deposits	245,000	445,000	-	690,000
Prepaid sales deposits from franchises	80,000	-	-	80,000
Lease liabilities (undiscounted cash flows)	2,736,514	11,502,130	5,090,930	19,329,574
Financial guarantee liability	-	321,958	-	321,958
Convertible debenture	-	10,000,000	-	10,000,000
	$ 4,434,939	$ 22,269,088	$ 5,090,930	$ 31,794,957

As at December 31, 2019	Within 1 year	1-5 years	Greater than 5 years	Total
Accounts payables and accrued liabilities	$ 884,622	$ -	$ -	$ 884,622
Convertible debentures interest payable	-	723,300	-	723,300
Payable to non-controlling interest	311,671	-	-	311,671
Refundable franchise fee deposits	72,500	373,750	-	446,250
Lease liabilities (undiscounted cash flows)	2,190,198	8,222,869	5,474,076	15,887,143
Financial guarantee liability	-	305,921	-	305,921
Convertible debenture	-	10,000,000	-	10,000,000
	$ 3,458,991	$ 19,625,840	$ 5,474,076	$ 28,558,907

Market risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is exposed to equity price risk, which arises from marketable securities and investments measured at air value through profit or loss ("FVTPL"). For marketable securities and investments classified as FVTPL, the impact of a 10% increase or decrease in the share price would have $34,521 change in equity.

Interest rate risk

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

Foreign currency risk

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

21. CHANGES IN NON-CASH WORKING CAPITAL

For the six months ended June 30,		2020		2019
Short-term deposits	$	1,200,000	$	-
Accounts receivables		(523,068)		(737,675)
Prepaid expenses and deposits		(362,762)		21,277
Lease deposits		-		107,396
Inventory		52,350		107,651
Accounts payables and accrued liabilities		177,131		(618,324)
Short term note payable		-		250,000
Current portion of lease liabilities		-		843,947
Franchise fee deposits		172,500		262,500
Prepaid sales deposits from franchises		80,000		-
Unredeemed gift card liability		4,284		(18,575)
Convertible debentures interest payable		(723,300)		-
Increase in non-cash working capital balances	$	77,135	$	218,197

22. SUBSEQUENT EVENTS

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

APPENDIX "B"

Management's Discussion and Analysis

For the three and six months ended June 30, 2020

(*Attached*)

INNER SPIRIT HOLDINGS ish

Inner Spirit Holdings Ltd.

Management's Discussion and Analysis

For the three and six months ended June 30, 2020

(Expressed in Canadian Dollars)

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Introduction

The following Management's Discussion and Analysis ("**MD&A**") of the financial results of Inner Spirit Holdings Ltd. ("**Inner Spirit**" or the "**Company**") should be read in conjunction with the interim condensed consolidated financial statements for the three and six months ended June 30, 2020 (the "**Financial Statements**") and the audited consolidated financial statements of the Company for the year ended December 31, 2019. The Financial Statements, including the comparative figures, were prepared in accordance with International Financial Reporting Standards ("**IFRS**"). Unless otherwise noted, all dollar amounts are in Canadian dollars. Further information regarding the Company is available on SEDAR at www.sedar.com. The information in this MD&A is current as of August 24, 2020.

Corporate Overview

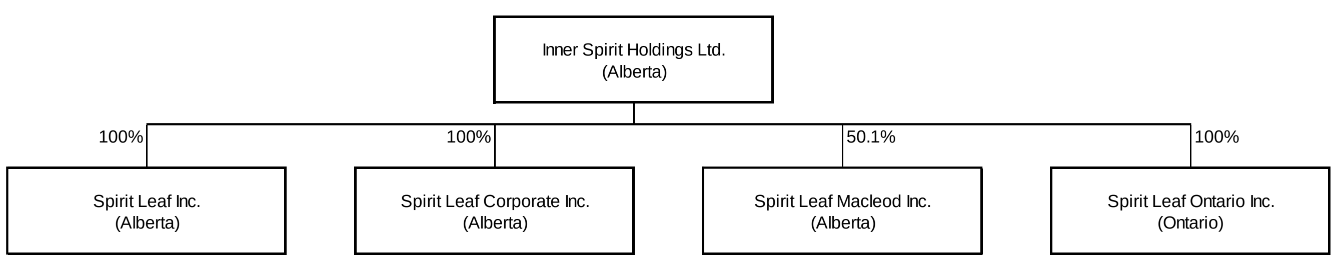
Corporate Structure

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

As at the date of this MD&A, the Company has four operating subsidiaries: (i) Spirit Leaf Inc., which is wholly-owned by the Company; (ii) Spirit Leaf Macleod Inc. ("**Spirit Leaf Macleod**"), of which the Company owns 50.1% of the outstanding voting shares; (iii) Spirit Leaf Corporate Inc. ("**Spirit Leaf Corporate**"), which is wholly-owned by the Company, and (iv) Spirit Leaf Ontario Inc. ("**Spirit Leaf Ontario**"), which is wholly-owned by the Company, (collectively referred to as "**Spirit Leaf**"). The subsidiaries were incorporated under the laws of the Province of Alberta (other than Spirit Leaf Ontario which was incorporated under the laws of the Province of Ontario), are headquartered in Calgary, Alberta, and are extra-provincially registered in the various jurisdictions in which they operate. Spirit Leaf Inc.'s primary business is the planned opening and ongoing support of franchise retail cannabis stores in Canadian jurisdictions where the private sale of recreational cannabis is permitted. Spirit Leaf Macleod's primary business is the current operation of a corporate retail cannabis store in Calgary, Alberta. Spirit Leaf Corporate's primary business is the current operation and planned opening of wholly-owned corporate retail cannabis stores in Alberta, Saskatchewan and Manitoba. Spirit Leaf Ontario's primary business is the current operation and planned opening of wholly-owned corporate retail cannabis stores in Ontario.

The Company has a fifth non-operating subsidiary, Watch It! Consolidated Ltd. ("**Watch It!**"), which is wholly-owned by the Company. Watch It! filed a Notice of Intention to Make a Proposal pursuant to the provisions of Division I of Part III of the Bankruptcy and Insolvency Act (Canada) on November 29, 2019. Watch It! was deemed bankrupt on December 31, 2019, and the Company closed its corporate Watch It! operations and sold the remaining assets and trademark to a former franchise owner who continues to independently operate two stores and the related e-commerce business. The historical operations of Watch It! have been accounted for as discontinued operations.

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



Description of the Business

The Company's current operations consist solely of the Spirit Leaf operations, which are comprised of:

(i) the business of Spirit Leaf Inc., the franchise operations of the Company's cannabis business, which consists of the current operation, planned opening and ongoing support of Spiritleaf franchise partners by providing a turn-key operation which leverages the benefits of the Company's expertise in cannabis retail including store design, training, the proprietary Spirithub education program, industry leading point of sale and accounting systems, standard operating procedures, as well as ongoing support from the Spiritleaf support centre. Spirit Leaf Inc. collects initial franchise fees, royalties and also generates revenue through the sale of millwork, supplies and Spiritleaf accessories to Spiritleaf franchise retail cannabis stores in Alberta, British Columbia, Saskatchewan, Ontario, and Newfoundland and Labrador.

(ii) the business of Spirit Leaf Macleod, a joint venture company with 101805 Alberta Ltd., which consists of the operation of a Spiritleaf retail cannabis store in Calgary, Alberta.

(iii) the business of Spirit Leaf Corporate, which consists of the current operation of 8 wholly owned Spiritleaf retail corporate stores in Alberta and the planned opening of additional wholly owned corporate Spiritleaf retail cannabis stores in Alberta, Saskatchewan and Manitoba.

(iv) the business of Spirit Leaf Ontario, which consists of the operation of wholly owned Spiritleaf retail cannabis stores in Kingston and Ottawa, Ontario and the planned opening of other wholly owned corporate Spiritleaf retail cannabis stores in Ontario.

In addition, the Company also intends to create house brands, brand white-label cannabis products with such house brands in jurisdictions where doing so is permitted, and to sell such branded white-label cannabis products through its own vertical distribution network, which, if and where permitted, may include online, wholly-owned retail cannabis stores and franchise retail cannabis stores.

Retail Store Network

The Company entered Q2 with 46 Spiritleaf stores and finished the quarter with 53 stores, and subsequent to quarter-end opened 5 additional locations to bring the total Spiritleaf store count to 58.

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

Province	Corporate Stores(1)	Franchise Stores	Corporate Licenses Pending(2)	Franchise Licenses Pending(2)	Total
British Columbia	0	6	0	1	**7**
Alberta	9	32	1	3	**45**
Saskatchewan	0	1	3	0	**4**
Manitoba	0	0	1	0	**1**
Ontario	2	7	3	18	**30**
Newfoundland	0	1	0	4	**5**
	11	**47**	**8**	**26**	**92**

(1) Includes one joint venture location.
(2) Premises currently held for Spiritleaf cannabis retail stores at various stages of licensing approvals and development. There is no assurance that these locations will obtain final licensing approvals or that they will open.

Provincial Overview

British Columbia:

Franchise partners operated 6 Spiritleaf locations in British Columbia, in Vernon, Penticton, Maple Ridge, Castlegar, Kelowna, and West Kelowna, during the six months ended June 30, 2020. A new location was secured in Langley, British Columbia by an existing British Columbia franchise partner. The franchise partner's application was conditionally approved by the Liquor & Cannabis Regulation Branch and an application has been submitted to the City of Langley for a municipal development permit. The Company continues to seek one additional corporate or franchise opportunity in British Columbia to achieve the regulatory maximum of 8 cannabis retail stores licenses per group of related persons (which includes the Spiritleaf brand) through the end of 2021.

Alberta:

The Spiritleaf brand remained the top retail cannabis store licence holder in Alberta with an aggregate of 41 licences held by corporate and franchise Spiritleaf retail cannabis stores. Spirit Leaf Corporate operated 8 corporate Spiritleaf retail cannabis stores during the period ended June 30, 2020. These stores are located in Edmonton's Old Strathcona neighborhood on Whyte Avenue, Calgary's Beltline neighborhood on 10th Avenue SW, Canmore Road, 17th Ave SW (Calgary), Edmonton (Parsons Place), Jasper National Park, Fort McMurray and Edmonton (Garneau).

During the month of June, the Company closed its corporate Spiritleaf retail cannabis store on Canmore's Main Street, and accordingly, has secured a conditional lease assignment to a non-cannabis retail use. A new corporate location is expected to be opened in Edmonton to make use of the available corporate licence.

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

Spirit Leaf's franchise partners operated 30 Spiritleaf franchise retail cannabis stores in Alberta during Q2. Subsequent to the end of the quarter, 2 new locations opened in Gasoline Alley in Red Deer and The Brick Plaza on Macleod Trail in Calgary. Additional Spirit Leaf franchise partners continue to work with Alberta Gaming, Liquor and Cannabis ("**AGLC**") on final approvals of their municipally approved Alberta locations that are in various stages of development.

The number of retail cannabis licences issued to a single group of persons (which includes the Spiritleaf brand) is limited by AGLC to a maximum of 45 licenses until October 17, 2020. As of June 30, 2020, a total of 45 retail cannabis licenses have either been obtained or applied for existing and proposed Spiritleaf retail cannabis stores.

Saskatchewan:

Spirit Leaf's franchise partner continued to operate the Issuer's flagship Saskatchewan Spiritleaf retail cannabis store in Moose Jaw and the e-commerce website (www.sk.spiritleaf.ca) that sells cannabis throughout the entire province.

On October 29, 2019, the Saskatchewan Liquor and Gaming Authority ("**SLGA**") announced that Saskatchewan will be moving forward with a phased-in open market system when allocating future cannabis retail permits. The SLGA began accepting applications for cannabis retail permits in communities with populations less than 2,500 in April and will begin accepting permit applications for stores in all communities in the province in September 2020.

Spirit Leaf Corporate has conditionally secured two potential locations in Saskatoon and one potential location in Regina with anticipated openings in Q4 2020 and/or 2021, subject to applicable licences being obtain and store build-outs being completed.

Manitoba

The Company applied for an Age-Restricted License with Manitoba Liquor & Lotteries to operate a stand-alone corporate store in Winnipeg and has resumed franchise sales activity in the province for both Spiritleaf stand-alone stores and store-in-store operations under the controlled-access licence category. One location has been secured in Winnipeg (McPhillips Street).

Ontario

The Company holds a Retail Operator License in the province of Ontario. A corporate location on Robertson Road in Nepean, Ottawa opened in July, while applications for Retail Store Authorization have been submitted for 3 additional corporate locations that are in various stages of development. As well, during the period ended June 30, 2020, the Company acquired the existing Kingston, Ontario Spiritleaf retail cannabis store that was being operated by Spirit Leaf's retail partner.

During the period ended June 30, 2020, 5 franchise partners opened Spiritleaf retail cannabis stores in the following locations:

- Bloor West Village, Toronto;
- College Street (Little Italy), Toronto;
- Lawrence Avenue (Don Mills), Toronto;
- Wellington West Village, Ottawa;
- Edinburgh Market Place, Guelph.

Two additional franchise partners opened Spiritleaf retail cannabis stores in London and Stitsville in July.

A total of 26 Spiritleaf (5 corporate and 21 franchise) locations have been posted on the Alcohol and Gaming Commission of Ontario (the "**AGCO**") website with their Retail Store Authorizations application status reported. Additional applications for Retail Store Authorizations have been submitted and continue to be processed.

Newfoundland and Labrador

On April 1, 2020, the Company announced it has signed a master agreement with a wholly owned subsidiary (the "Atlantic Subsidiary") of Atlantic Cultivation Limited ("**Atlantic Cultivation**") for the operation of franchised Spiritleaf retail cannabis stores in Newfoundland and Labrador. Atlantic Cultivation has plans to open several Spiritleaf stores in the near term.

During the month of June, the Company's franchisee in Newfoundland and Labrador opened its first Spiritleaf retail cannabis store in 673 Topsail Road, St. John's. Additional stores that are under construction and being prepared for opening in the province in late 2020 and 2021 include two in St. John's, one in Gander and one in Grand Falls-Windsor.

Inner Spirit Holdings Operational Update

Because of the preliminary stage of the recreational cannabis market in Canada, the Company expects that its subsidiaries and franchisees of Spirit Leaf will face competition from new entrants. The Company believes that the investment in its brand, its customer experience, product knowledge, its experience in operating retail outlets with coast-to-coast expertise in cannabis retail including store design, training, the proprietary Spirithub education program, industry leading point of sale and accounting systems, standard operating procedures, as well as ongoing support from the award-winning Spiritleaf support centre will allow it to offset some of the risks associated with any increased competition in the retail cannabis market. Furthermore, strategic partnerships with larger, established companies in the cannabis and investment industry (including Auxly Cannabis Group Inc., HEXO Corp., Tilray, Inc., High Times and Prairie Merchant Corporation) provide additional advantages.

Operational highlights include:

- Positioned as Canada's leading retail cannabis brand with 58 locations across the country.
- Low-cost and highly scalable franchising model to maximize return on investment - more than 100 franchise and corporate locations either in operation or being developed in jurisdictions where permitted in Canada.
- Highly experienced team and proven business model with significant expertise in cannabis, branding, consumer retail, franchising, and real estate.
- Proven ability to license, open and operate cannabis store locations in an efficient manner in Alberta, Saskatchewan, British Columbia, Ontario and Newfoundland and Labrador with plans for additional stores in these markets as well as in Manitoba.
- Market-leading retail experience for consumers including the proprietary Collective customer "rewards" program and Spiritleaf Select & Collect online shopping and pick-up program.
- Aligned with Strategic partnerships and collaborations with premium producers, industry suppliers and strategic investors to create a fully integrated business model.

Impact of the COVID-19 Pandemic

During the quarter ended and as of the date of the MD&A, COVID-19 resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures included the implementation of travel bans, self-imposed quarantine periods, social distancing, and temporary closures of non-essential businesses.

The Company has reacted to the public health challenge by operating with enhanced customer service processes to ensure the health and safety of employees and customers by implementing enhanced in-store procedures including increased and frequent cleaning, installation of safety shields, provision of hand-sanitizer, masks and gloves to front-line employees. The Spiritleaf Select & Collect service also enables customers to pre-shop and order online prior to pick-up. Although the Company's services have been deemed to be essential in the provinces it operates with 58 stores remaining open and no meaningful impact on the Company's operations, if the impact of COVID-19 continues for an extended period, it may materially adversely affect the business operations and future financial results.

Non-IFRS Financial Measures

System-wide retail sales

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 represents the sum of the revenue reported to the Company by franchisees of Spiritleaf retail cannabis stores and by Company-owned Spiritleaf retail cannabis stores. This measure is useful to management and the investment community in evaluating brand scale and market penetration and is used by management of Inner Spirit to assess the financial and operational performance of the Company and the strength of the Company's market position relative to its competitors.

Adjusted EBITDA

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net loss and comprehensive loss for period	$ (1,229,588)	$ (2,809,683)	$ (3,173,755)	$ (4,814,508)
Add back:				
Right of use asset depreciation	170,644	143,820	342,657	530,796
Depreciation and amortization	369,328	111,491	736,659	190,938
Unrealized loss (gain) on marketable securities	-	(208,991)	357,212	(281,528)
Realized loss on marketable securities	3,046	-	-	-
Gain on sublease arrangement	(533)	-	(210,538)	-
Financial guarantee liability expense	(27,845)	-	16,037	-
Finance income	(289,353)	-	(548,812)	-
Interest expense (accretion) - leases	462,282	-	923,363	-
Interest expense	199,884	254,737	503,217	329,492
Convertible debenture accretion	532,080	-	1,064,161	-
Share-based compensation	323,412	55,111	368,909	55,111
Adjusted EBITDA	$ 513,357	$ (2,453,515)	$ 379,110	$ (3,989,699)

Q2 2020 & Subsequent Event Highlights

- System wide sales increased 343% to $20.5 million for the three months ended June 30, 2020, versus $4.6 million in Q2 of 2019.
- System wide sales increased 479% to $37.6 million for the six months ended June 30, 2020, versus $6.5 million in the comparable period of 2019.
- Total revenue increased 575% to $5.4 million for the three months ended June 30, 2020, versus $0.8 million in Q2 of 2019.
- Total revenue increased 669% to $9.6 million for the six months ended June 30, 2020, versus $1.2 million for the comparable period in 2019.
- Adjusted EBITDA increased to a positive $0.5 million for the three months ended June 30, 2020, from a negative $2.5 million in Q2 of 2019.
- Adjusted EBITDA increased to a positive $0.4 million for the six months ended June 30, 2020, from a negative $4.0 million in the comparable period of 2019.
- The Spiritleaf Collective members' program which currently has over 95,000 members enrolled.
- The Company closed private placements for gross proceeds of $0.6 million, issuing 6 million common shares of the Company to a prestigious UK-based independent private equity firm.
- Company signed a master agreement with Atlantic Cultivation Limited to operate franchise Spiritleaf retail cannabis stores in Newfoundland and Labrador.
- Spirit Leaf Ontario secured a Retail Operator Licence ("**ROL**") for corporate-owned Spiritleaf retail cannabis stores and met Ontario's eligibility criteria for operating cannabis outlets in the province.
- The Company completed the acquisition of the existing Kingston, Ontario Spiritleaf cannabis store, which has been operating under a retail agreement with an Ontario lottery winner and ROL holder since April 1, 2019.
- Spiritleaf has received a special industry designation from the Canadian Franchise Association. The Franchisees' Choice Designation was achieved due to exceptional survey satisfaction rankings from Spiritleaf franchise partners across the country. The designation is part of the Canadian Franchise Association's annual awards program to recognize franchising's best and brightest organizations.
- The Company appointed 4 independent professionals with extensive industry experience to its board of directors:
    - Manjit Minhas, who is the Co-Founder and Chief Executive Officer of MCBSW Sales Co. (o/a as Minhas Brewery and Distillery), a producer and distributor of liquor and beer products in North America. Ms. Minhas is a Canadian entrepreneur, television personality (Dragon's Den) and venture capitalist. Ms. Manjit deepens the Company's retail market and white label experience and adds government relations expertise.
    - Andrew Macmillan, who is the Vice President, Commercial Business Development of Auxly Cannabis Group Inc., an integrated cannabis company. Mr. MacMillan was previously the Chief Executive Officer of the Prince Edward Island Liquor Control Commission, a provincial Crown commission that controls the purchase, distribution and sale of alcoholic beverages in that province. Mr. MacMillan was also the Chief Executive Officer of the Prince Edward Island Cannabis Management Corporation, a Crown corporation responsible for the regulation and sale of cannabis in that province.
    - Russell Wilson, who is the Vice President, Business Development of Prairie Merchant Corporation, a private investment company.
    - Frank Rochon, CPA, who was previously Vice Chairman and Managing Partner with Deloitte. Mr. Rochon brings strong financial expertise, governance, market and operational executive leadership. Mr. Rochon has been extensively involved in board leadership capacities for numerous large national not-for-profit organizations and foundations.

Results of Operations

The results of operations as discussed in this section refers to continuing operations, unless otherwise disclosed as discontinued operations.

The following table summarizes the consolidated results of operations for the three and six months ended June 30, 2020 and 2019:

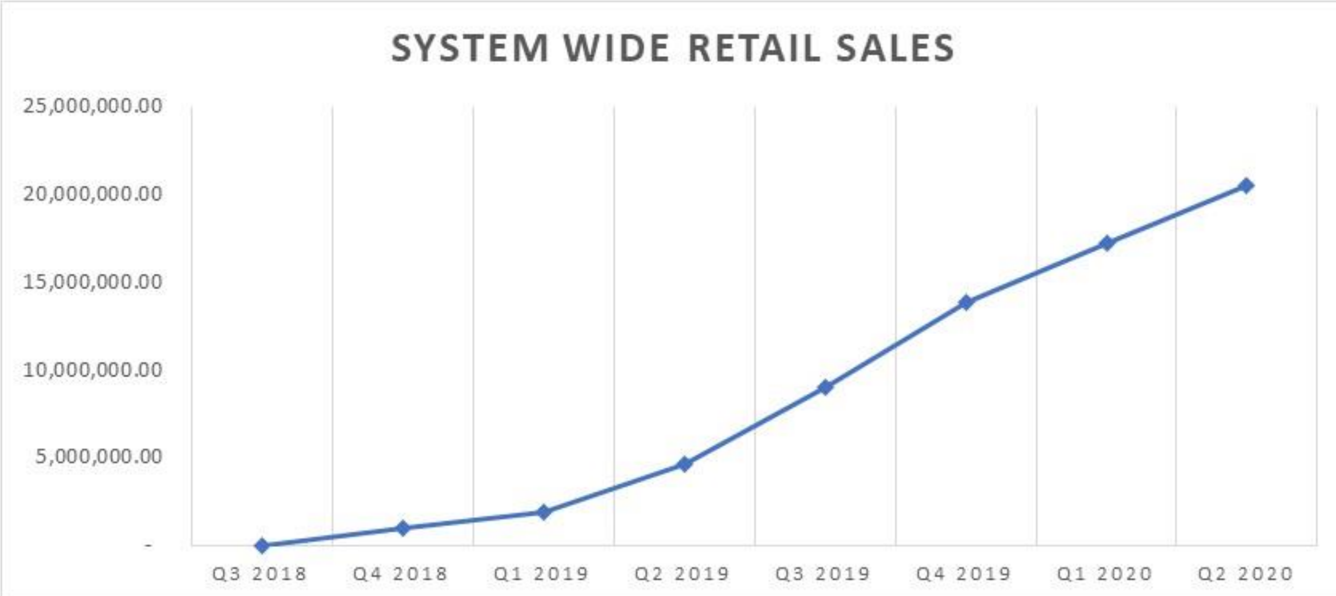
	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
System-Wide Retail Sales (1)	$ 20,485,375	$ 4,626,947	$ 37,648,622	$ 6,504,634
Revenue	$ 5,422,050	$ 802,743	$ 9,555,801	$ 1,242,526
Cost of sales	2,881,177	345,144	5,047,860	549,178
Gross profit	2,540,873	457,599	4,507,941	693,348
Operating expenses				
Salaries, wages, and benefits	1,047,476	560,713	2,152,070	996,927
Sales and marketing	222,834	169,232	418,236	253,478
General and administrative	531,610	1,634,233	1,167,333	2,506,581
Occupancy costs	225,596	288,681	391,192	398,069
Right of use asset depreciation	170,644	143,820	342,657	530,796
Depreciation and amortization	369,328	111,491	736,659	190,938
Total operating expenses	2,567,488	2,908,170	5,208,147	4,876,789
Operating loss before other expenses	(26,615)	(2,450,571)	(700,206)	(4,183,441)
Other expenses				
Unrealized loss (gain) on marketable securities	-	(208,991)	357,212	(281,528)
Realized loss on marketable securities	3,046	-	-	-
Gain on sublease arrangement	(533)	-	(210,538)	-
Financial guarantee liability expense	(27,845)	-	16,037	-
Finance income	(289,353)	-	(548,812)	-
Interest expense (accretion) - leases	462,282	-	923,363	-
Interest expense	199,884	254,737	503,217	329,492
Convertible debenture accretion	532,080	-	1,064,161	-
Share-based compensation	323,412	55,111	368,909	55,111
	1,202,973	100,857	2,473,549	103,075
Net loss for the year from continuing operations	$ (1,229,588)	$ (2,551,428)	$ (3,173,755)	$ (4,286,516)
Net loss for the year from discontinued operations	-	(258,255)	-	(527,992)
Net loss and comprehensive loss for period	$ (1,229,588)	$ (2,809,683)	$ (3,173,755)	$ (4,814,508)

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

System Wide Retail Sales

During the three and six months ended June 30, 2020, the Company achieved system-wide retail sales of $20.5 million (2019 - $4.6 million) and $37.6 million (2019 - $6.5 million) respectively. The growth in system-wide retail sales was driven by the operation of 53 Spiritleaf corporate and franchised retail cannabis stores as at June 30, 2020 versus 10 stores as at June 30, 2019. The year-over-year growth from June 30, 2019 to June 30, 2020 was driven by the opening of 44 new stores increasing total store count from 10 to 54 (one of which, the Canmore Main Street store, has since been closed).

The following chart shows the increase in quarterly system-wide retail sales over the last two years.



Revenue

Total revenue for the three months ended June 30, 2020 was $5.4 million (2019 - $0.8 million). Revenue increased by over $4.6 million in Q2 of 2020 versus Q2 of 2019, representing an increase of 575%.

Total revenue for the six months ended June 30, 2020 was $9.6 million (2019 - $1.2 million). Revenue increased by over $8.3 million for the six months ended June 30, 2020 versus the six months ended June 30, 2019, representing an increase of 669%.

The growth in total revenue is primarily attributable to i) the operation of 10 corporate owned cannabis retail stores generating $6.2 million of retail revenue in the six months ended June 30, 2020 versus nominal revenue in the comparable period of 2019, and ii) 43 franchise stores which paid ongoing royalties and advertising contributions totaling $1.6 million (versus 2019 - $0.3 million) representing a 389% increase.

Prior to opening, Spiritleaf franchised retail cannabis stores purchase millwork (store fixtures) from the Company, which resulted in increased revenues of $0.8 million for the six months ended June 30, 2020 versus $0.5 million in the same period of 2019 due to more franchise retail stores opening in Q1 and Q2.

Franchise fees deposits that are received by Spirit Leaf for new franchise sales and recorded as a liability on the balance sheet of the Company when a franchise agreement is fully signed are recognized as revenue and earned when a franchise store opens. For the six months ended June 30, 2020 the fees earned were $0.2 million versus $0.1 million in the comparable period in 2019.

Additionally, once a franchised retail cannabis store opens, there are ongoing sales of supplies and Spiritleaf accessories. Revenues increased in this category to $0.4 million versus $0.2 million in the comparable period in 2019.

Gross Profit

Gross profit for the three months ended June 30, 2020 was $2.5 million (2019 - $0.5 million) or 47% (2019 - 57%) margin. Gross profit increased by $2.1 million, representing a 455% increase versus 2019.

Gross profit for the six months ended June 30, 2020 was $4.5 million (2019 - $0.7 million) or 47% (2019 - 56%) margin. Gross profit increased by $3.8 million, representing a 550% increase over 2019.

The increase in gross profit was driven primarily by the growth in total revenue, which is discussed in the section above. While royalty revenue is earned at 100% margin, overall margins decreased primarily because of (i) the increase in revenue from the operation of the Company's corporately owned retail cannabis stores which achieved gross margins of 34%, and (ii) increased revenue from millwork sales to franchises which have margins under 5%.

Operating Expenses

Total operating expenses for the three months ended June 30, 2020 were $2.6 million (2019 - $2.9 million). For the three months ended June 30, 2020 compared to the comparable period in 2019:

- General and administrative decreased by $1.1 million (67%), as a result of a reduction in costs.
- Salaries increased by $0.5 million primarily because of having 10 corporate stores operating in Q2 of 2020 (2019 - nil) and thus incurring increased employment costs for additional employees and support centre staff.

Total operating expenses for the six months ended June 30, 2020 were $5.2 million (2019 - $4.9 million). For the six months ended June 30, 2020 compared to the comparable period in 2019:

- General and administrative decreased by $1.3 million (53%), as a result of a reduction in costs.
- Salaries increased by $1.2 million primarily because of having 10 corporate stores operating in Q2 of 2020 (2019 - nil) and thus incurring increased employment costs for additional employees and support centre staff.
- Sales and marketing increased to $0.4 million (2019 - $0.3 million) as additional stores were open and contributing to the marketing fund, and additional funds were spent on marketing.

Operating Loss Before Other Expenses

The operating loss before other expenses was $0.02 million for the three months ended versus $2.5 million for the comparable period in 2019. The operating loss before other expenses was $0.7 million for the six months ended versus $4.2 million for the comparable period in 2019.

Adjusted EBITDA was $0.5 million for the three months ended June 30, 2019 versus negative $2.5 million for the comparable period in 2019. Adjusted EBITDA was $0.4 million for the six months ended June 30, 2019 versus negative $4.0 million for the comparable period in 2019. The improved operating performance and move to positive Adjusted EBITDA are a result of the Company now generating revenues from having operating corporate stores and more franchise stores while simultaneously reducing general and administrative costs.

Other Expenses

Total other expenses for the three months ended June 30, 2020 were $1.2 million versus $0.1 million in 2019. The increase in the three months ended over the prior year relates primarily to the following:

- the unrealized loss on marketable securities of $nil (2019 – unrealized gain of $0.2 million);
- the interest expenses of $0.2 million (2019 - $0.3 million) and accretion expense of $0.5 million (2019 - $nil) from the convertible debentures issued in 2019;
- interest expense (accretion) on leases of $0.5 million (2019 - $nil) offset by finance income of $0.3 million (2019 - $nil) from the adoption of IFRS 16 by the Company;
- Share based compensation of $0.3 million (2019 -$0.06 million) from issuance of options in the current period.

Total other expenses for the six months ended June 30, 2020 were $2.5 million versus $0.1 million in 2019. The increase in the six months ended over the prior year relates primarily to the following:

- the unrealized loss on marketable securities of $0.4 million (2019 – unrealized gain of $0.3 million);
- the interest expenses of $0.5 million (2019 - $0.3 million) and accretion expense of $1.0 million (2019 - $nil) from the convertible debentures issued in 2019;
- interest expense (accretion) on leases of $0.9 million (2019 - $nil) offset by finance income of $0.5 million (2019 - $nil) and a gain on sublease arrangements of $0.2 million (2019 - $nil) from the adoption of IFRS 16 by the Company;
- share based compensation of $0.4 million (2019 -$0.06 million) from issuance of options in the current period.

Net loss and comprehensive loss

For the three months ended June 30, 2020, the Company reported a net loss and comprehensive loss of $1.2 million (2019 - $2.8 million).

For the six months ended June 30, 2020, the Company reported a net loss and comprehensive loss of $3.2 million (2019 - $4.8 million).

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

Income Taxes

Presently, the Company does not expect to pay current taxes into the foreseeable future based on existing tax pools, planned capital activities and current forecasts of taxable income. However, the current tax horizon will ultimately depend on several factors including future operations, corporate expenses, and both the type and amount of capital expenditures incurred in future reporting periods.

Performance Evaluation

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

- *System-Wide Retail Sales*: system-wide retail sales in the three months ended June 30, 2020 were $20.5 million versus $17.2 million in the prior quarter and $4.6 million in the comparable period in the prior year;
- *System-Wide Retail Sales*: system-wide retail sales in the six months ended June 30, 2020 were $37.6 million versus $6.5 million in the comparable period in the prior year;
- *Revenue*: revenue in the three months ended June 30, 2020 was up $4.6 million from the comparable period in the prior year;
- *Revenue*: revenue in the six months ended June 30, 2020 was up $8.3 million from the comparable period in the prior year.

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

Summary of Quarterly Results

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

				Restated for discontinued operations				
Three months ended	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18
Revenue - Continuing operations	$ 5,422,050	$ 4,133,752	$ 3,805,074	$ 3,066,668	$ 802,743	$ 439,783	$ 224,065	$ 358,575
Revenue - Discontinued operations	$ -	$ -	$ 1,656,137	$ 924,972	$ 973,138	$ 813,312	$ 1,787,394	$ 1,186,205
Net loss - Continuing operations	$ (1,229,588)	$ (1,944,167)	$ (4,056,009)	$ (2,506,637)	$ (2,483,193)	$ (1,803,323)	$ (3,362,735)	$ (803,077)
Net loss - Discontinued operations	$ -	$ -	$ (164,328)	$ 16,314	$ (326,420)	$ (201,572)	$ (4,098,934)	$ (119,535)
Net and comprehensive loss	$ (1,229,588)	$ (1,944,167)	$ (4,220,337)	$ (2,490,323)	$ (2,809,613)	$ (2,004,895)	$ (7,461,669)	$ (922,612)
Basic loss per share	($0.01)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.01)
Diluted loss per share	($0.01)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.05)	$ (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:

- the increase in number of corporate and franchise retail cannabis stores which started from zero in Q4 of 2018 and has since increased to 53 by the end of Q2 2020;
- lower loss in quarter ended June 30, 2020, due to increasing revenue from the increasing number of Spirit Leaf stores;
- lower loss in quarter ended March 31, 2020, due to higher revenue from the increasing number of Spirit Leaf stores, and lower expenses due to no longer having the Watch It! operations, which were discontinued in 2019;
- increased loss in the quarter ended December 31, 2019 due to significant expenses incurred from share-based compensation, accretion of right of use assets, financial guarantee liability expense, convertible debenture accretion, and interest expense (accretion) on leases;
- increased salaries and wages as the organization grows and enters into commercialization and operation of its Spiritleaf corporate retail cannabis stores and supports the opening of Spiritleaf franchised retail cannabis stores;
- increased marketing and branding expenses related to building and growing the Company's Spiritleaf brand;
- an impairment charge of $3.5 million recorded by the Company in the quarter ended December 31, 2018, relating to Watch It!;
- swings in unrealized losses or gains on marketable securities that were acquired by the Company pursuant to its transactions with strategic partners;
- share-based compensation expenses for (a) stock options that were issued through various quarters of 2019 and 2018, and (b) warrants issued throughout the quarters to various service providers and pursuant to transactions with strategic partners; and
- expenses incurred in connection with the completion of the IPO in July of 2018, and prospectus offering of convertible debentures in May 2019, including associated listing expenses and professional fees incurred in the months leading up to it.

It is anticipated that certain of the above expenses are non-recurring and/or will normalize over time.

Liquidity, Cash Flows, and Capital Resources

Cash Flow Statement

For the six months ended June 30,	2020	2019
Cash provided by (used in) the following activities:		
Operating activities before working capital changes	$ (50,375)	$ (3,914,161)
Changes in non-cash working capital	77,135	218,197
Operating activities	26,760	(3,695,964)
Financing activities	2,250,915	13,466,997
Investing activities	(923,213)	(7,325,636)
Increase in cash	1,354,462	2,445,397
Cash and cash equivalents, beginning of period	2,026,054	3,375,588
Cash and cash equivalents, end of period	$ 3,380,516	$ 5,820,985

Operating Activities

For the six months ended June 30, 2020, cash flows provided by operating activities were $0.03 million (2019 – cash used of $3.7 million). The decrease in cash used in operations is primarily due to increased revenue associated with the operations of Spirit Leaf corporate stores and royalties from franchise stores, as well as reduced operating costs.

For the six months ended June 30, 2020, operating activities were affected by a net increase in non-cash working capital balances of $0.08 million (2019 - $0.2 million) mainly as a result of the following items:

- a decrease in short-term deposits of $1.2 million, as this was transferred to the cash account for operations.
- accounts receivables increase by $0.5 million (2019 - $0.7 million), largely due to increased revenue;
- an increase in prepaid expenses and deposits of $0.4 million (2019 – decrease of $0.02 million), largely due to increased operations;
- an increase in accounts payable and accrued liabilities of $0.2 million (2019 – decrease of $0.7 million), as operations continued to increase;
- an increase in the current portion of franchise fee deposits of $0.2 million (2019 - $0.3 million), as additional franchises were sold;
- an increase in prepaid sales deposits from franchises of $0.08 million (2019 - $nil) as franchises started ordering inventory and placing deposits on millwork to be delivered.

Financing Activities

For the six months ended June 30, 2020, cash provided by financing activities was $2.3 million (2019 - $13.5 million) primarily due to issuance of share capital of $2.3 million (2019 - $4.0 million) in the period. The Company also received $0.5 million (2019 - $nil) from repayments of loans to franchise partners. The Company also expended $0.5 million (2019 - $0.6 million) of cash for lease payments. In 2019, the Company received a $10 million through the issuance of convertible debentures.

In conjunction with the COVID-19 pandemic, the Provincial and Federal governments have implemented various programs to help mitigate the financial impact of the pandemic to businesses, including Canada Emergency Business Accounts in the form of interest free loans to fund the Company's non-deferrable operating expenses until December 31, 2022. During the quarter, the Company applied for and received a total of $120,000 in such loans through three of the Company's operating subsidiaries. The loans have no repayments terms and are non-interest bearing during the initial term, until December 31, 2022. If the loan balances are repaid in full on or before December 31, 2022, 25% of the loans will be forgiven. On December 31, 2022, any remaining outstanding loan balances will be converted into three-year term loans at fixed interest rates of 5% per annum, with payments commencing January 31, 2023. The loans plus accrued interest must be repaid in full by December 31, 2025. The funds are being utilized to increase various COVID protection measures for employees and customers in the stores as well as for general working capital purposes.

Investing Activities

For the six months ended June 30, 2020, total cash used in investing activities was $0.9 million (2019 –$7.3 million). The Company acquired $0.9 million (net of dispositions) of property and equipment (2019 - $1.0 million). In 2019, the Company expended an additional $6.3 million in acquisitions of franchise stores, store permits, and marketable securities.

Capital Resources and Liquidity

The Financial Statements for the three and six months ended June 30, 2020 and 2019 are prepared by management in accordance with IFRS on a going concern basis, which assumes that the Company will be able to continue to operate for the foreseeable future. However, the Company is exposed in varying degrees to a variety of financial risks, including liquidity risk and market risks with respect to its ability to raise capital through equity markets under acceptable terms and conditions.

The Company has incurred losses since incorporation and as of June 30, 2020 had an accumulated deficit of $27.4 million (December 31, 2019 - $24.2 million). The Company is in the development stage of expanding by opening corporate Spiritleaf retail cannabis stores and supporting the opening of franchised Spiritleaf retail cannabis stores across Canada.

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

The Company monitors its liquidity on a continuous basis to ensure there is sufficient capital to meet business requirements and to provide shareholder value. At June 30, 2020, the Company had sufficient cash on hand to meet its short-term liabilities and commitments as they become due. In the longer term, the Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flow and net income or raise additional capital and then generate positive cash flow and net income. There can be no assurance that equity or debt financings will be available to the Company in the future on terms satisfactory to the Company. Circumstances that could impair the Company's ability to raise additional funds include general economic conditions and its ability to expand operations within the recreational cannabis industry in Canada.

Statement of Financial Position

The following table sets out certain selected financial position data as at June 30, 2020 and December 31, 2019:

As at,	30-Jun-20	31-Dec-19
Total Current Assets	$ 8,472,221	$ 7,200,673
Total Non-Current Assets	16,054,041	15,549,035
Total Assets	24,526,262	22,749,708
Total Current Liabilities	4,123,069	4,087,646
Total Non-Current Liabilities	19,221,748	16,941,549
Total Liabilities	23,344,817	21,029,195
Total Shareholders' Equity of Parent	1,535,222	2,052,132
Non-Controlling Interest	(353,777)	(331,619)
Total Shareholders' Equity	1,181,445	1,720,513
Total Liabilities and Equity	$ 24,526,262	$ 22,749,708

As at June 30, 2020, the Company had total assets of $24.5 million (December 31, 2019 - $22.7 million), an increase of $1.8 million. The increase in total assets resulted primarily from the increase in accounts receivable, prepaid expenditures, net investment in subleases, and property and equipment.

As at June 30, 2020, the Company had total liabilities of $23.3 million (December 31, 2019 - $21.0 million), an increase of $2.3 million. The increase in total liabilities resulted from increased accounts payable, increased lease liabilities, and adjustment to fair market value of the convertible debentures.

Off-Balance Sheet Arrangements

As of the date of this MD&A, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

Commitments

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

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

		30-Jun-20
2020	$	73,546
2021	$	609,094
2022	$	714,040
2023	$	725,590
Thereafter	$	5,202,764

Related Parties

Key management

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

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

Six months ended		30-Jun-20		30-Jun-19
Short-term benefits	$	184,867	$	101,380
Long-term benefits (*)		15,293		-
	$	200,160	$	101,380

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

Other related party transactions

During the six months ended June 30, 2020, the Company paid $60,935 (June 30, 2019 - $34,385) in total rent and operating costs to a company related to an executive officer and director. The yearly rent increased as the size of office space increased and was based on a fair value assessment completed by an independent appraiser.

Pursuant to the sales agreement with Auxly (Note 4(ii)), for the six months ended June 30, 2020, a total of $13,613 (June 30, 2019 - $nil) was paid or accrued to Auxly.

As at June 30, 2020, there was $15,213 (December 31, 2019 - $nil) of outstanding payables to related parties, that is included in accounts payable and accrued liabilities.

Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value, issuable in series. As at June 30, 2020, the Company had 229,090,837 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 21, 2020.

Securities Outstanding	Number or Principal Amount Outstanding	Expiry Date	Exercise Price	Number of Common Shares Outstanding or Issuable Upon Conversion or Exercise
Common shares	229,197,076			229,197,076
12% Senior Secured Convertible Debentures	$ 10,000,000	June 30, 2022	$0.25	40,000,000
Stock options	21,781,250	February 28, 2023 to July 12, 2025	$0.10 to $0.20	21,781,250
Agent's options	2,292,800	November 24, 2020	$0.25	2,292,800
Service w arrants	1,910,500	August 28, 2020 to May 25, 2024	$0.10 to $0.30	1,910,500
Debenture w arrants	20,000,000	November 24, 2020	$0.25	20,000,000
Fully diluted				315,181,626

Common Shares

During the six months ended June 30, 2020, the Company issued 22,854,542 common shares at a price of $0.10 per share.

Stock Options

During the six months ended June 30, 2020, the Company granted 6,405,000 options with a weighted average exercise price of $0.16 per share. During the six months ended June 30, 2020, 755,000 options with a weighted average exercise price of $0.13 per share were forfeited.

Warrants

During the six months ended June 30, 2020, the Company did not issue any warrants. During the six months ended June 30, 2020, 16,391,177 warrants with exercise prices between $0.15 and $0.30 per share expired unexercised or were cancelled pursuant to various cancellation agreements.

Convertible Debentures

During the six months ended June 30, 2020, the Company did not issue any convertible debentures

Recently Adopted Accounting Pronouncements

During the period ended June 30, 2020, there were no recently adopted accounting pronouncements.

See the annual audited financial statements for recently adopted accounting pronouncements for the prior year, related to IFRS 16 Leases.

Critical Accounting Estimates

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

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

Use of estimates and judgments

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

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

Going concern

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

Expected credit losses

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

Inventory

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

Investments

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

Determining CGUs

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

Impairment testing of property and equipment ("P&E"), goodwill, and indefinite life intangible assets

Goodwill and indefinite life intangible assets are assessed for impairment at least annually, and for P&E whenever there is an indication that the asset may be impaired. The Company determines the fair value less cost of disposal of its CGU groupings and indefinite life intangible assets using discounted cash flow models. Recoverable amounts are determined by comparing the higher of value in use and fair value less cost of disposal amounts.

The process of determining the value in use or the fair values less cost of disposal requires the Company to make estimates and assumptions of a long-term nature regarding discount rates, projected revenues, margins, as applicable, derived from past experience, actual operating results and budgets. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies. Recoverable amounts are determined by comparing the higher of value in use and fair value less cost of disposal amounts.

Depreciation

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

Amortization of intangible assets

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

Determination of lease liability

The Financial Statements include estimates of the lease liability, the net investment in leases, and incremental borrowing rates. These are based on management's best estimate and in this regard may be significantly different from those determined based on future operational results.

Expected credit losses ("ECL") on financial guarantee liability

The Financial Statements include estimates of the expected credit losses on the financial guarantee liability. These are based on management's best estimate and in this regard may be significantly different from those determined based on future operational results.

Fair market value of debenture

The Financial Statements include estimates of the fair value of the debt component of debentures based on determination of the market interest rate. These are based on management's best estimate and in this regard may be significantly different from those determined based on future operational results.

Deferred revenue

The Financial Statements include estimates in the determination of performance obligations on deferred revenue. These are based on management's best estimate and in this regard may be significantly different from those determined based on future operational results.

Deferred tax assets

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable income in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Estimate on share-based compensation and warrants

The Company issues warrants and stock options to directors, officers and other consultants. The Company employs the fair value method of accounting for stock options and warrants. The determination of the share-based compensation expense for stock options and warrants requires the use of judgment as to the appropriate valuation model and the inputs for the model require assumptions including the rate of forfeiture of options and warrants granted, the expected life of the option or warrant, the expected volatility of the Company's share price, the risk-free interest rate and expected dividends.

Determination of control on Spirit Leaf Macleod Inc.

The Financial Statements include judgment regarding the determination of control over Spirit Leaf MacLeod Inc., as the Company owns 50.1%, and the sole director is the CEO of the Company.

Financial instruments and risk management

Fair values

At June 30, 2020, the Company's financial instruments consist of cash, short-term deposits, accounts receivable, marketable securities, investments, loans to franchise partners, accounts payable, prepaid sales deposits from franchises, convertible debenture interest payable, payable to non-controlling interest, financial guarantee liability and convertible debenture. The fair values of cash, short-term deposits, accounts receivable, accounts payable and convertible debenture interest approximate their carrying values due to the relatively short-term maturity of these instruments.

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

Fair value hierarchy

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

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

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

Marketable securities are classified as level 1, and the warrants included in marketable securities are classified as level 2. Investments are classified as level 2. During the three months ended June 30, 2020 and 2019, there were no transfers of amounts between levels.

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

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

Credit risk

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

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

The accounts receivable balances totaling $1.5 million is net of provision for expected credit losses of $nil. The balance consists of: (i) receivables from Spirit Leaf's franchisees for franchisee fees, royalty and advertisement charges and for millwork sold, and (ii) an ongoing account held with PayPal. A large portion of the accounts receivable at June 30, 2020 were collected subsequent to the period ended; accordingly, no provision for expected credit losses was determined for these balances. The net carrying value of accounts receivable as at the period ended represents the Company's maximum exposure to credit risk.

Below is a breakdown of the aged receivable balance:

Accounts receivable	30-Jun-20	31-Dec-19
Current	$ 599,817	$ 342,882
31 – 60 days	373	2,570
61 – 90 days	96,952	9,532
Greater than 90 days	801,875	620,965
Accounts receivable	$ 1,499,017	$ 975,949

Management believes that the risk of loss on the loan to franchise partners is minimal, as the Company has vetted the franchise partners prior to entering into the franchise agreement and has entered into a General Security Agreement with all loans extended. In the event of default, the Company has various remedies available to it including the ability to acquire the franchise in case of non-repayment of the loan and operate the franchise as a corporate store.

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

Liquidity risk

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

As the Company has historically treated a portion of the franchise fee deposits as refundable, these deposits may become financial obligations at the discretion of the Company and are accordingly held in a segregated bank account.

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

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

As at June 30, 2020	Maturity: Within 1 year	1-5 years	Greater than 5 years	Total
Accounts payables and accrued liabilities	$ 1,061,754	$ -	$ -	$ 1,061,754
Convertible debentures interest payable	-	-	-	-
Payable to non-controlling interest	311,671	-	-	311,671
Refundable franchise fee deposits	245,000	445,000	-	690,000
Prepaid sales deposits from franchises	80,000	-	-	80,000
Lease liabilities (undiscounted cash flows)	2,736,514	11,502,130	5,090,930	19,329,574
Financial guarantee liability	-	321,958	-	321,958
Convertible debenture	-	10,000,000	-	10,000,000
	$ 4,434,939	$ 22,269,088	$ 5,090,930	$ 31,794,957
As at December 31, 2019				
Accounts payables and accrued liabilities	$ 884,622	$ -	$ -	$ 884,622
Convertible debentures interest payable	-	723,300	-	723,300
Payable to non-controlling interest	311,671	-	-	311,671
Refundable franchise fee deposits	72,500	373,750	-	446,250
Lease liabilities (undiscounted cash flows)	2,190,198	8,222,869	5,474,076	15,887,143
Financial guarantee liability	-	305,921	-	305,921
Convertible debenture	-	10,000,000	-	10,000,000
	$ 3,458,991	$ 19,625,840	$ 5,474,076	$ 28,558,907

Market risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is exposed to equity price risk, which arises from marketable securities and investments measured at FVTPL. For marketable securities and investments classified as FVTPL, the impact of a 10% increase or decrease in the share price would have $34,521 change in equity. In addition, the Company has foreign currency exposure on its investments as those shares are denominated in US dollars.

Interest rate risk

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

Foreign currency risk

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

Risk Factors

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

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

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

Competition in the recreational cannabis retail market

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

Laws and regulations are subject to unforeseen changes

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

Shelf life inventory

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

Product liability

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

Potential future acquisitions and/or strategic alliances may have an adverse effect on the Company's ability to manage its business

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

The Company's limited operating history makes evaluating its business and prospects difficult

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

Reliance on franchisees

The Company receives a portion of its operating revenue in the form of franchise royalty payments. Failure to achieve adequate levels of collection from the Company's franchisees and other customers, including by reason of disputes or litigation, could have a serious negative effect on the Company's results of operations and financial condition in particular. It is intended that the Company's franchisees will be independent operators and as such will be subject to many factors which the Company cannot control. Should economic conditions worsen, some franchisees could become unable to pay royalties and rent.

Negative cash flow from operations

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

Price volatility of publicly traded securities

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

Management of growth

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

No assurance of profitability

The Company cannot give assurances that it will not incur net losses in the future. The limited operating history makes it difficult to predict future operating results. The Company is subject to the risks inherent in the operation of a new business enterprise in an emerging and uncertain business sector, and there can be no assurance that the Company will be able to successfully address these risks.

Dividends

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

Dilution

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

Market Risk from COVID-19

Though the long-term effects of the COVID-19 outbreak remain unknown, it has introduced uncertainty and volatility in global markets and economies. The Company is monitoring developments and is prepared for any impacts related to COVID-19. The Company has a comprehensive pandemic and business continuity plan that ensures its readiness to appropriately address and mitigate any business risks and impacts to customers and employees. COVID-19 could have a material adverse effect on the Company's business and results of operations.

Forward-Looking Statements

Certain statements and information contained 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 retail cannabis stores through its subsidiaries; the Company's strategies and objectives, both generally and in respect of its existing business and planned businesses; the Company's 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 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.

Additional Information

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