

Speakeasy Cannabis Club Ltd.

CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended October 31, 2018

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

Speakeasy Cannabis Club Ltd.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	As at October 31, 2018	As at July 31, 2018
ASSETS		
Current assets		
Cash	\$ 1,183,771	\$ 588,041
GST/HST recoverable	378,711	326,385
Prepays	10,000	10,000
Construction deposit (note 7)	-	385,769
Total current assets	1,572,482	1,310,195
Non-current assets		
Property, plant and equipment (note 7)	5,345,160	4,221,461
Total non-current assets	5,345,160	4,221,461
Total assets	\$ 6,917,642	\$ 5,531,656
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 1,042,898	\$ 912,258
Total current liabilities	1,042,898	912,258
Shareholders' equity		
Common share capital (note 10)	22,679,911	19,989,543
Contributed surplus (note 10)	5,204,121	5,042,324
Share subscriptions received in advance (note 10)	-	360,000
Deficit	(22,009,288)	(20,772,469)
Total shareholders' equity	5,874,744	4,619,398
Total liabilities and shareholders' equity	\$ 6,917,642	\$ 5,531,656

Going concern (note 2)

Approved on behalf of the Board of Directors:

"Marc Geen" (signed) Director

Marc Geen, Director

"Mervyn Geen" (signed) Director

Mervyn Geen, Director

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

Speakeasy Cannabis Club Ltd.**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss****(Unaudited – Prepared by Management)****(Expressed in Canadian Dollars)****For the three months ended October 31,**

	2018	2017
Operating Expenses		
Advertising and promotion	\$ 9,500	\$ -
Automobile	12,091	-
Consulting fees (note 9)	311,896	-
Filing and listing fees	18,184	-
Legal and professional fees	123,396	-
Management fees	53,050	-
Meals and entertainment	2,982	-
Office and general expenses	83,257	-
Repairs and Maintenance	66	-
Share-based compensation (note 10)	118,071	-
Transaction costs	(52,000)	-
Travel	50,517	-
Wages, salaries and labour	505,809	-
Net and comprehensive loss	(1,236,819)	-
Basic and diluted net loss per share	\$ (0.02)	\$ -
Weighted average number of common shares outstanding - basic and diluted	50,485,312	12,000,000

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

Speakeasy Cannabis Club Ltd.**Condensed Consolidated Interim Statements of Cash Flows****(Unaudited – Prepared by Management)****(Expressed in Canadian Dollars)****For the three months ended October 31,**

	2018	2017
Operating activities		
Net loss for the period	\$ (1,236,819)	\$ -
Adjustment for non-cash item		
Share-based compensation	118,071	-
Net changes in non-cash working capital:		
GST/HST recoverable	(52,326)	-
Accounts payable and accrued liabilities	130,640	-
Net cash used in operating activities	(1,040,434)	-
Investing activities		
Expenditures on property, plant and equipment	(737,930)	-
Net cash used in investing activities	(737,930)	-
Financing activities		
Proceeds from issuance of shares	2,319,282	-
Proceeds from exercise of warrants	198,000	-
Share issuance costs	(143,188)	-
Net cash provided by financing activities	2,374,094	-
Net change in cash	595,730	-
Cash, beginning of period	588,041	-
Cash, end of period	\$ 1,183,771	\$ -

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

Speakeasy Cannabis Club Ltd.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

	<u>Common share capital</u>		Subscription received in advance	Contributed surplus	Deficit	Total
	Number of shares	Amount				
Balance July 31, 2017 and October 31, 2018	300	30	\$ -	\$ -	\$ -	\$ 30
Balance July 31, 2018	49,720,312	\$ 19,989,543	\$ 360,000	\$ 5,042,324	\$ (20,772,469)	4,619,398
Private placements (note 10)	3,865,804	2,319,282	-	-	-	2,319,282
Share issuance costs	-	(186,914)	-	161,797	-	(25,117)
Warrants exercised (note 10)	3,100,000	558,000	(360,000)	-	-	198,000
Net loss	-	-	-	-	(1,236,819)	(1,236,819)
Balance October 31, 2018	56,686,116	\$22,679,911	\$ -	\$ 5,204,121	\$ (22,009,288)	\$ 5,874,744

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

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Speakeasy Cannabis Club Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Three Months Ended October 31, 2018 and 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

1. Nature of Operations

Speakeasy Cannabis Club Ltd. (the “Company”) is a publicly traded company listed on the Canadian Securities Exchange (“CSE”), trading under the symbol EASY, and has an application for a license under the Access to Cannabis for Medical Purposes Regulations (“AMCPR”) to become licensed producer of medical cannabis in Canada. The head office and registered records office of the Company is located at 1515 Meyers Creek Road West Rock Creek, British Columbia V0H 1Y0, Canada.

On April 2, 2018, the Company acquired 100% of the issued and outstanding common shares of 10161233 Canada Ltd. (“Speakeasy”) in exchange for 12,000,000 of the Company’s common shares (the “Transaction”). The Transaction was accounted for as a reverse takeover whereby Speakeasy obtained a listing of its shares on the CSE as well as financing for the further development of its business.

2. Going Concern Assumption

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern under International Financial Reporting Standards (“IFRS”). The use of these principles under IFRS assumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge its liabilities in the normal course of operations. At October 31, 2018, the Company has incurred losses totaling \$22,009,288 since inception. The Company’s ability to continue as a going concern is dependent on its ability in the future to achieve profitable operations and in the meantime, obtain the necessary financing to meet its obligations and repay its liabilities when they come due. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

3. Statement of Compliance and Basis of Presentation

(a) Statement of compliance

These condensed interim financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”), in particular IAS 34, Interim Reporting, and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) as of January 31, 2019, the date the Company’s Board of Directors approved these financial statements.

(b) Basis of presentation

These condensed interim consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial instruments which may be measured at fair value in subsequent periods, and have been prepared using the accrual basis of accounting except for cash flow information.

(c) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, 10161233 Canada Ltd. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the condensed interim consolidated financial statements.

Speakeasy Cannabis Club Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Three Months Ended October 31, 2018 and 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

4. Significant Accounting Policies

a) Property, plant and equipment

Property, plant and equipment are recorded at cost net of accumulated amortization and impairment charges. The cost of repairs and maintenance is expensed as incurred. Amortization is provided on the straight-line method over the estimated lives of assets. Upon sale or other disposition of a depreciable asset, cost and accumulated amortization are removed from property, plant and equipment and any gain or loss is reflected as a gain or loss from operations. Depreciation is provided using the following annual rates.

Buildings and Improvements	4%	straight-line
Equipment	20%	straight-line

b) Future accounting policies not yet adopted

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 and will replace IAS 39 - Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires an expected loss impairment method to be used, replacing the incurred loss model. The adoption of this standard is not expected to have a material impact on the Company’s financial statements. IFRS 9 becomes effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company has not yet determined the impact of the standard on the Company’s financial statements.

IFRS 16 - In 2016, the IASB issued IFRS 16, Leases (“IFRS 16”), replacing IAS 17, Leases and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted, in certain circumstances. The Company has not yet determined the impact of the amendments on the Company’s financial statements.

c) Critical Accounting Estimates and Judgments

The preparation of these condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses.

Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates.

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

Speakeasy Cannabis Club Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Three Months Ended October 31, 2018 and 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

c) Critical Accounting Estimates and Judgments (continued)

i. Impairment

Assets, property, plant, land and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may exceed their recoverable amounts. As at October 31, 2018, there were no indications that certain tangible and intangible assets of the Company are impaired. The effect of this impairment is recorded in the Company's consolidated statement of loss and comprehensive loss.

ii. Identifying acquirer in transaction with Speakeasy

Significant judgment is required in determining which party to the transaction was the acquirer. Refer to Note 5 for the factors management considered in reaching their conclusion that the acquirer was Speakeasy.

Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the financial statements.

i. Share-based compensation

The Company records all share-based compensation and warrants issued in connection with private placements, using the fair value method. The Company uses the Black-Scholes option pricing model to determine the fair value of share-based compensation. This estimate also requires determining the most appropriate inputs to the valuation model. The main factor affecting the estimates of the fair value of stock options is the stock price, expected volatility used and the expected duration of the instrument. The Company currently estimates the expected volatility of its common shares based on comparable information derived from the trading history of guideline public companies which are in a similar situation to the Company taking into consideration the expected life of the options.

ii. Estimated useful lives of property and equipment and intangible assets

The Company makes estimates and utilizes assumptions in determining the useful lives of property and equipment and intangible assets, and the related depreciation and amortization. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain assets.

iii. Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

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Notes to Condensed Interim Consolidated Financial Statements

For the Three Months Ended October 31, 2018 and 2017

(Unaudited – Prepared by Management)

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4. Significant Accounting Policies (continued)

d) Loss per Share

The Company presents basic loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all options, warrants and similar instruments outstanding that may add to the total number of common shares.

e) Share based payments transactions

The Company grants stock options to purchase common shares of the Company to directors, officers, employees, and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee, including directors of the Company. The fair value of the stock options granted is measured at grant date and each tranche is recognized on a graded basis over the vesting period. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At the end of each reporting period, the amount recognized as an expense for unvested options is adjusted to reflect the number of the options that are expected to vest. If the options are forfeited or expired, the amount recorded to the reserves is transferred to deficit.

f) Financial instruments

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. The company classifies cash at fair value through profit or loss.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The company does not hold any such investments.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets. The company does not hold any such assets.

Speakeasy Cannabis Club Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Three Months Ended October 31, 2018 and 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

f) Financial instruments (continued)

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. The company classifies its accounts payable and accrued liabilities as non-derivative financial liabilities.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

5. Reverse Takeover Transaction

The Transaction was accounted for as a reverse takeover whereby Speakeasy obtained a listing on the CSE as well as obtaining financing for the further development of its business. Management determined that, for accounting purposes, the acquirer was Speakeasy on the basis that:

- Excluding a financing completed by the Company prior to and in anticipation of the Transaction, the shareholders of Speakeasy obtained a larger number of the combined entity's common shares than the existing shareholders;
- Senior management of the Company, subsequent to the Transaction, is substantially comprised of that of Speakeasy;
- The only assets of the Company prior to the Transaction were cash and assets that were directly related to and dependent on the completion of the Transaction; and
- The shareholders of Speakeasy obtained a large minority voting interest.

At the time of the Transaction the Company did not constitute a business as defined under IFRS 3; therefore, the Transaction is accounted under IFRS 2.

The following table summarizes the consideration paid and the fair value of the assets acquired and liabilities assumed as the date of Transaction:

Consideration paid:		
29,750,686 shares at \$0.50 per share	\$	14,875,343
Finders fees – 1,000,000 shares at \$0.50 per share		500,000
Fair value of warrants		2,423,681
Total consideration paid	\$	17,799,024
<hr/>		
Fair value of the assets and liabilities of the Company		
Cash	\$	2,981,453
GST/HST recoverable		134,986
Loans receivable		578,654
Deposit on building		1,500,000
Accounts payable		(134,067)
Fair value of net assets acquired	\$	5,061,026
Listing expense	\$	12,737,998

Speakeasy Cannabis Club Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Three Months Ended October 31, 2018 and 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

5. Reverse Takeover Transaction (continued)

The difference between the fair value of the consideration paid and the fair value of the net assets of the Company of \$12,737,998 has been reflected as a listing expense, being the cost of Speakeasy obtaining a listing on the CSE.

The fair value of the 29,750,686 shares deemed to be issued was estimated to be \$0.50 per share using the price of the most recent private placement.

The Company assumed 5,000,000 warrants exercisable at a price of \$0.18 per share expiring on February 21, 2019. The fair value of the warrants was \$1,704,233, estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	1.31%
Estimated life	0.91 years
Expected volatility	100%
Expected dividend yield	0.00%
Forfeiture rate	0.00%

The Company assumed an additional 12,911,710 warrants exercisable at a price of \$1 per share expiring on November 6, 2018. Of these warrants, 396,412 were exercised during the year ended July 31, 2018 and subsequent to the year ended July 31, 2018, all remaining warrants expired. The fair value of the warrants was \$719,448, estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	1.31%
Estimated life	0.62 years
Expected volatility	100%
Expected dividend yield	0.00%
Forfeiture rate	0.00%

6. Loan Receivable

On December 4, 2017, the Company entered into a loan agreement with a company controlled by a director of the Company, whereby the Company loaned \$100,000 to a company controlled by the chairman of the Company's board of directors. The loan bears interest at 4%, is unsecured and is due on or before December 3, 2018. On July 31, 2018, management identified evidence this loan was impaired, and recognized an impairment loss of \$103,000.

Speakeasy Cannabis Club Ltd.

Notes to Condensed Interim Consolidated Financial Statements
For the Three Months Ended October 31, 2018 and 2017
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

7. Property, Plant and Equipment

COST	Building and Improvements	Equipment	Land	Total
Balance, July 31, 2017	\$ -	\$ -	\$ -	\$ -
Additions	3,076,763	694,782	449,916	4,221,461
Balance, July 31, 2018	3,076,763	694,782	449,916	4,221,461
Additions	385,769	737,930	-	1,123,699
Balance, October 31, 2018	\$ 3,462,532	\$ 1,432,712	\$ 449,916	\$ 5,345,160

No depreciation has been taken on the Property, Plant and Equipment as at October 31, 2018, as they are not available for use.

Included in Buildings and Improvements is a payment of \$2,000,000 paid to a company controlled by the chairman of the Company's board of directors for a 290 acre property.

During the year ended July 31, 2018, the Company paid a deposit of \$385,769 for construction of buildings. The construction was completed during the period ended October 31, 2018.

8. Accounts Payable and Accrued Liabilities

	As at October 31, 2018	As at July 31, 2018
Accounts payable	\$ 872,225	\$ 786,353
Accrued liabilities	170,673	125,905
	\$ 1,042,898	\$ 912,258

9. Related Party Transactions and Disclosures

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. The remuneration of directors and key management personnel is as follows:

During the three months ended October 31, 2018 the Company,

- i) incurred management fees of \$45,000 (2017 - \$Nil) to the CEO of the Company.
- ii) incurred consulting fees of \$15,000 (2017 - \$Nil) to a company controlled by a director of the Company.
- iii) incurred consulting fees of \$75,000 (2017 - \$Nil) to a director of the Company.
- iv) incurred consulting fees of \$24,500 (2017 - \$Nil) to the corporate secretary of the Company.
- v) issued 100,000 stock options to the corporate secretary of the Company with a fair value of \$145,529.

Speakeasy Cannabis Club Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Three Months Ended October 31, 2018 and 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

9. Related Party Transactions and Disclosures

As at October 31, 2018, the Company had balances due to related parties of:

- i) \$996 (July 31, 2018 - \$996), which is due to a former director and CEO of the Company. The amount has no set repayment term, is unsecured and is non-interest bearing.
- ii) \$2,500 (July 31, 2018 - \$2,500), which is due to a former director and CFO of the Company. The amount has no set repayment term, is unsecured and is non-interest bearing.
- iii) \$163,800 (July 31, 2018 - \$163,800), which is due to company controlled by a former director and CFO of the Company who resigned on September 10, 2018. The amount has no set repayment term, is unsecured and is non-interest bearing.
- iv) \$1,875 (July 31, 2018 - \$1,875), which is due to a company controlled by a former director and of the Company. The amount has no set repayment term, is unsecured and is non-interest bearing.
- v) \$1,086 (July 3, 2018 - \$3,794) which is due to the corporate secretary of the Company. The amount has no set repayment term, is unsecured and is non-interest bearing.

10. Share Capital

The Company's authorized share capital consists of an unlimited number of common shares with no par value.

Three month period ended October 31, 2018

On September 4, 2018, the Company issued 2,000 units at a price of \$0.50 per unit for proceeds of \$1,000 relating to the second tranche of a private placement.

On September 27, 2018, the Company closed its private placement of 3,863,804 units at a price of \$0.60 per unit for proceeds of \$2,318,000. Each unit comprises of one common share and one-half warrant. Each one whole warrant is exercisable into a common share at an exercise price of \$1.00 with a 24 months expiry. In connection with this private placement, \$143,188 in finders' fees were paid by the Company and issued 238,648 finders warrants valued at \$43,726.

During the period ended October 31, 2018, the Company received proceeds of \$198,000 and issued 1,100,000 common shares pursuant to the exercise of 1,100,000 warrants.

Speakeasy Cannabis Club Ltd.

Notes to Condensed Interim Consolidated Financial Statements

For the Three Months Ended October 31, 2018 and 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

10. Share Capital (continued)

Fiscal 2018

On July 24, 2018, the Company closed its private placement of 4,285,714 units at a price of \$0.70 per unit for proceeds of \$3,000,000. Each unit comprises of one common share and one warrant. Each warrant is exercisable into a common share at an exercise price of \$1 with a year expiry. In connection with this private placement, \$19,250 in finders' fees were paid by the Company. Of the proceeds raised, \$1,213,809 was immediately paid pursuant to consulting agreement that were entered into concurrently with the financing.

During the year ended July 31, 2018, the Company received gross proceeds of \$360,000 for the exercise of 2,000,000 warrants of the Company. Subsequent to the year end the shares were issued.

During the year ended July 31, 2018, the Company received proceeds of \$738,412 and issued 2,296,412 common shares pursuant to the exercise of 2,296,412 warrants.

During the year ended July 31, 2018, the Company issued 387,500 shares with a fair value of \$224,750 for services provided.

During the year ended July 31, 2018, the Company entered into performance agreements with the CEO and a former CFO of the Company. Per the agreement, the Company is to issue up to up to 6,500,000 common shares to the CEO and a former CFO should the Company receive a license to cultivate under the Access to Cannabis for Medical Purposes Regulations license application ("ACMPR") from Health Canada. Furthermore, should the Company receive a license to sell under the ACMPR the Company will issue an additional 4,500,000 shares to the CEO and a former CFO. The Company recorded a total of \$1,745,317 in share-based compensation in relation to the contingency to issue shares.

During the year ended July 31, 2018, the Company entered into employment agreements with officers and key management of the Company under which they will issue up to 2,162,499 should the Company reach certain market capitalization targets. The Company has recorded a total of \$31,692 in share-based compensation in relation to the contingency to issue shares.

Stock Options

On October 2, 2018, a total of 200,000 incentive stock options were granted to employees and consultants with a fair value of \$91,059. The options are exercisable at a price of \$0.70 per share for a period of 5 years.

On March 26, 2018, a total of 1,605,000 incentive stock options were granted to directors, officers and consultants with a fair value of \$530,188. The options are exercisable at a price of \$0.95 per share for a period of 5 years.

On July 23, 2018, the Company granted 1,300,000 incentive stock options to senior management and a consultant with a fair value of \$560,846. Of these options, 1,250,000 vest immediately with the remaining 50,000 options vesting in October 2018. The options are exercisable at a price of \$0.70 per share for a period of 5 years.

On July 23, 2018, the Company granted 1,000,000 incentive stock options to directors, officers and consultants with a fair value of \$420,888. The options are exercisable at a price of \$0.95 per share for a period of 5 years.

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For the Three Months Ended October 31, 2018 and 2017
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10. Share Capital (continued)

Stock Options (continued)

	Number of stock options	Weighted average exercise price (\$)
Balance, July 31, 2017	-	-
Granted	3,905,000	0.87
Balance, July 31, 2018	3,905,000	0.87
Granted	200,000	0.70
Expired/Cancelled	(630,000)	0.95
Balance, October 31, 2018	3,475,000	0.84

The following table sets out the details of the stock options granted and outstanding as at October 31, 2018:

Expiry date	Exercise price (\$)	Number of options outstanding
March 26, 2023	0.95	1,050,000
July 23, 2023	0.70	1,300,000
July 23, 2023	0.95	925,000
October 23, 2023	0.70	200,000
		3,475,000

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

Three month period ended October 31, 2018

Expected Volatility	100%
Risk-free interest rate	2.12%
Expected life in years	5 years
Expected dividend yield	0.00%

Three month period ended October 31, 2017

Expected Volatility	-
Risk-free interest rate	-
Expected life in years	-
Expected dividend yield	-

Speakeasy Cannabis Club Ltd.

Notes to Condensed Interim Consolidated Financial Statements
For the Three Months Ended October 31, 2018 and 2017
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

10. Share Capital (continued)

Warrants

	Number of warrants	Weighted average exercise price (\$)
Balance, July 31, 2017	-	-
Warrants of Speakeasy at time of Transaction (Note 5)	17,911,710	0.18
Issued	4,285,714	1.00
Exercised	(2,296,412)	0.34
Balance, July 31, 2018	19,901,012	0.45
Issued	2,170,550	1.00
Exercised	(3,100,000)	0.18
Balance, October 31, 2018	18,971,562	0.75

The following table sets out the details of the warrants issued and outstanding as at October 31, 2018:

Expiry date	Exercise price (\$)	Number of warrants outstanding
November 6, 2018*	1.00	12,515,298
July 10, 2019	1.00	4,285,714
August 27, 2020	1.00	2,170,550
	0.87	19,901,012

* expired subsequently

11. Commitments and Contingencies

In the normal course of its operations, the Company may be subject to other litigation and claims.

The Company indemnifies its directors, officers, consultants, and employees against claims and costs reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers.

12. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the development of its projects and to sustain future development of the business. The capital structure of the Company consists of working and share capital. There are no restrictions on the Company's capital. There were no changes in the Company's approach to capital management during the year.

Speakeasy Cannabis Club Ltd.

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13. Financial instruments and risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Company's management team approves and monitors the risk management processes, with guidance from the Audit Committee under policies approved by the Board of Directors. The type of risk exposure and the way in which such exposure is managed is provided as follows:

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with a major bank in Canada. As all of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institutions as determined by rating agencies.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements. The Company coordinates this planning and budgeting process with its financing activities through the capital management process described in note 14, in normal circumstances.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The Company's financial liabilities are comprised of its accounts payable and accrued liabilities.