

Speakeasy Cannabis Club Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Speakeasy Cannabis Club Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Speakeasy Cannabis Club Ltd. (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the consolidated financial statements, which indicates that the Company incurred losses totaling \$37,062,817 since inception. As stated in Note 2, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephen Hawkshaw.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

December 2, 2020

Speakeasy Cannabis Club Ltd.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at July 31,

	2020	2019
ASSETS		
Current assets		
Cash and equivalents (Note 4a)	\$ 125,887	\$ 3,922,921
Sales taxes recoverable (Note 5)	127,571	560,971
Due from a related party (Note 13)	-	11,044
Prepaid expenses	19,776	76,363
Construction deposit	5,661	65,471
Biological assets (Note 6)	6,908,568	-
Total current assets	7,187,463	4,636,770
Non-current assets		
Right-of-use assets (Note 8)	168,390	-
Intangible assets (Note 7)	2,200,000	-
Property, plant and equipment (Note 9)	14,248,392	12,671,359
Total non-current assets	16,616,782	12,671,359
Total assets	\$ 23,804,245	\$ 17,308,129
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Notes 10 and 13)	\$ 3,353,983	\$ 3,012,161
Advances payable (Note 11)	510,000	100,000
Convertible loan (Note 12)	987,260	-
Promissory note (Note 12)	190,000	-
Lease liabilities (Note 8)	104,966	-
Total current liabilities	5,146,209	3,112,161
Non-current liabilities		
Convertible loan (Note 12)	1,124,000	-
Lease liabilities (Note 8)	56,876	-
Total liabilities	6,327,085	3,112,161
Shareholders' equity		
Share capital (Note 14)	49,113,552	38,604,300
Contributed surplus (Note 14)	5,426,425	4,976,563
Commitment to issue shares (Note 14)	-	5,000,000
Deficit	(37,062,817)	(34,384,895)
Total shareholders' equity	17,477,160	14,195,968
Total liabilities and shareholders' equity	\$ 23,804,245	\$ 17,308,129

Nature of operations (Note 1)
Going concern assumption (Note 2)
Commitment and contingencies (Note 19)
Subsequent events (Note 22)

Approved on behalf of the Board of Directors:

"Patrick Geen"

"William Flemming"

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

Speakeasy Cannabis Club Ltd.**Consolidated Statements of Loss and Comprehensive Loss****(Expressed in Canadian Dollars)****For the years ended July 31,**

	2020	2019
Unrealized gain on change in fair value of biological assets (Note 6)	\$ 3,130,311	\$ -
	3,130,311	-
Operating Expenses		
Accretion (Note 12)	24,000	-
Advertising and promotion	360,399	155,158
Amortization and depreciation (Notes 8 and 9)	248,989	-
Automobile	62,288	89,294
Consulting fees (Note 13)	750,521	2,505,670
Filing and listing fees	39,392	63,534
Interest expense (Notes 8 and 12)	293,933	-
Interest income	(16,033)	(19,239)
Legal and professional fees	599,048	497,096
Loss on settlement of debt (Notes 10 and 11)	131,578	15,459
Meals and entertainment	9,019	12,177
Office and general expenses	518,120	772,867
Other income (Note 8)	(65,000)	-
Research and development	55,076	-
Repairs and maintenance	-	4,787
Share-based compensation (Notes 13 and 14)	1,572,868	5,152,465
Travel	78,690	162,937
Salaries and wages (Note 13)	1,092,150	4,200,221
Write-off of receivable (Note 5)	53,195	-
	(5,808,233)	(13,612,426)
Loss and comprehensive loss	\$ (2,677,922)	\$ (13,612,426)
Basic and diluted loss per share	\$ (0.03)	\$ (0.20)
Weighted average number of ordinary shares outstanding – basic and diluted	97,370,387	66,457,943

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

Speakeasy Cannabis Club Ltd.

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended July 31,

	2020	2019
Operating activities		
Loss for the year	\$ (2,677,922)	\$ (13,612,426)
Adjustment for non-cash items		
Amortization and depreciation	248,989	-
Accretion of interest of right of use assets	16,179	-
Accretion of promissory note	24,000	-
Accrued interest	277,260	-
Loss of settlement of debt	131,578	15,459
Shares and warrants issued for services	341,350	75,900
Share-based compensation	1,572,868	5,152,465
Other income	(65,000)	-
Unrealized gain on change in fair value of biological assets	(3,130,311)	-
Write-off of receivable	53,195	-
Net changes in non-cash working capital:		
Sales taxes recoverable	380,205	(234,586)
Prepaid expenses	61,774	(66,363)
Due from (to) a related party	11,044	(11,044)
Accounts payable and accrued liabilities	733,338	2,078,692
Biological assets	(3,671,789)	-
Net cash used in operating activities	(5,693,242)	(6,601,903)
Investing activities		
Expenditures on property, plant and equipment	(1,968,266)	(6,543,756)
Lease obligation expense	(91,776)	-
Loan received	-	300,000
Deposit on building	-	(65,471)
Net cash used in investing activities	(2,060,042)	(6,309,227)
Financing activities		
Proceeds from issuance of private placements	1,315,000	16,345,163
Proceeds from exercise of options	24,000	-
Proceeds from exercise of warrants	-	232,285
Proceeds from convertible debenture	2,000,000	-
Share issuance costs	(61,250)	(331,438)
Advances received	678,500	-
Net cash provided by financing activities	3,956,250	16,246,010
Net change in cash and equivalents	(3,797,034)	3,334,880
Cash and equivalents, beginning of year	3,922,921	588,041
Cash and equivalents, end of year	\$ 125,887	\$ 3,922,921

Supplemental disclosure of cash flow information - Note 20

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

Speakeasy Cannabis Club Ltd.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Common share capital		Subscription received in advance	Commitment to issue shares	Contributed surplus	Deficit	Total
	Number of shares	Amount					
Balance July 31, 2018	49,720,312	\$ 19,989,543	\$ 360,000	\$ 1,777,009	\$ 3,265,315	\$ (20,772,469)	\$ 4,619,398
Private placements	28,921,949	16,345,163	-	-	-	-	16,345,163
Share issuance costs	-	(571,159)	-	-	239,721	-	(331,438)
Warrants exercised	3,134,285	865,829	(360,000)	-	(273,544)	-	232,285
Shares issued for debt settlement	2,967,703	1,714,621	-	-	-	-	1,714,621
Share based compensation	2,172,389	260,303	-	3,222,991	1,745,071	-	5,228,365
Loss for the year	-	-	-	-	-	(13,612,426)	(13,612,426)
Balance July 31, 2019	86,916,638	38,604,300	-	5,000,000	4,976,563	(34,384,895)	14,195,968
Private placements	3,287,500	1,315,000	-	-	-	-	1,315,000
Share issuance costs	-	(77,546)	-	-	16,296	-	(61,250)
Options exercised	75,000	49,152	-	-	(25,152)	-	24,000
Commitment to issue shares	12,250,000	6,188,000	-	(5,000,000)	-	-	1,188,000
Asset acquisition and consulting services	5,250,000	2,287,500	-	-	73,850	-	2,361,350
Shares for services	600,000	180,000	-	-	-	-	180,000
Shares issued for debt settlement	1,134,291	567,146	-	-	-	-	567,146
Share based compensation	-	-	-	-	384,868	-	384,868
Loss for the year	-	-	-	-	-	(2,677,922)	(2,677,922)
Balance July 31, 2020	109,513,429	\$ 49,113,552	\$ -	\$ -	\$ 5,426,425	\$ (37,062,817)	\$ 17,477,160

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

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

1. Nature of Operations

Speakeasy Cannabis Club Ltd. (the “Company” or “Speakeasy”) is a publicly traded company listed on the Canadian Securities Exchange (“CSE”), trading under the symbol EASY. The head office and registered records office of the Company is located at 1520 Meyers Creek Road West, Rock Creek, BC, Canada, V0H 1Y0.

The Company received an initial license to cultivate, process and sell cannabis for medical purposes in November 2019 for its indoor cultivation operations that was later amended in April 2020 to allow for the Company’s outdoor cultivation. In October 2020, the Company’s license was further amended to grant the Company the right to process cannabis into varying other cannabinoid products. The Company’s license expires in November 2022. In October 2020, the Company completed its first harvest of its outdoor crop consisting of approximately 60,000 plants (Note 6).

The Company does not engage in any U.S. cannabis-related activities as defined in Canadian Securities Administration Staff Notice 51-352.

On April 2, 2018, the Company acquired 100% of the issued and outstanding common shares of 10161233 Canada Ltd. (“10161233”) 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.

The Company was one of the respondents to the British Columbia Securities Commission (“BCSC”) Temporary Order dated November 26, 2018 issued against a group of people and entities. The hearing was held on December 7, 2018. The case centred around share issuances by 11 CSE issuers (the Company being one of the named issuers in the order) between February 2018 and August 2018. The BCSC is investigating whether the respondents violated securities legislation by participating in a scheme that involved conduct abusive to the capital markets and the illegal distribution of securities. The scheme, as set out by the BCSC, involved listed companies issuing private placement shares without a prospectus. The issuances were done under an exemption normally reserved for consultants.

On May 1, 2020, the Company entered into a settlement with the BCSC. The settlement resolves the BCSC’s review of the Company’s involvement in the ongoing BCSC investigation. Under the terms, the BCSC will not seek any orders against the Company, including financial orders. Full details of the settlement, including the settlement agreement, will be available on the BCSC website: www.bcsc.bc.ca

2. Going Concern Assumption

These 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 July 31, 2020, the Company has incurred losses totaling \$37,062,817 (2019 - \$34,384,895) 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. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. Statement of Compliance and Basis of Presentation

(a) Statement of compliance

These consolidated financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) as of November 30, 2020, the date the Company's Board of Directors approved these financial statements.

(b) Basis of presentation

These 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 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 consolidated financial statements.

4. Significant Accounting Policies

a) Cash and equivalents

Cash and equivalents consist of cash held with banks, undeposited GST refund cheques and highly liquid short-term investments in high interest saving accounts which can be withdrawn at any time, which, in the opinion of management, is subject to an insignificant risk of changes in value. As at July 31, 2020, the Company held cash of \$125,887 (2019 - \$61,424) and cash equivalents in the form of guaranteed investment certificates of \$Nil (2019 - \$3,861,497).

b) 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. Amortization is provided using the following annual rates.

Buildings and Improvements	20%	straight line
Equipment	20%	declining balance
Vehicle	30%	declining balance

Amortization methods, useful lives and residual values are reviewed at each financial year end and are adjusted of appropriate. Property, plant and equipment costs are not amortized until the asset is available for use.

c) Biological assets and inventory

The Company's biological assets consist of cannabis plants from indoor and outdoor cultivation. The Company capitalizes all the direct and indirect costs as incurred that relate to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs, and production related depreciation. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest; this becomes the basis for the initial deemed cost of finished goods inventories after harvest. Costs to sell include post-harvest production, shipping and fulfillment costs.

The net unrealized gains or losses arising from changes in fair value less cost to sell during the period are separately identified and included in the profit or loss on the line “unrealized gain on change in fair value of biological assets”.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

c) Biological assets and inventory (continued)

While the Company's biological assets are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent and insurance to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and they are all subsequently recorded within the line item 'cost of goods sold' on the consolidated statements of loss in the period that the related product is sold. Unrealized fair value gains or losses on growth of biological assets are recorded in a separate line in profit or loss. Biological assets are measured at their fair value less costs to sell on the statement of financial position. At July 31, 2020 and 2019, the Company's biological assets consist of indoor and outdoor cannabis plants.

d) Critical Accounting Estimates and Judgments

The preparation of these 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:

i. Impairment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may exceed their recoverable amounts. As at July 31, 2020, there were no indications that certain tangible assets of the Company are impaired. The effect of this impairment is recorded in profit or loss.

ii. Recoverability of intangible asset

Intangible assets with finite lives are accounted for at cost less accumulated amortization. The carrying value of these intangible asset will be amortized over its estimated useful live based on management's best estimates.

Intangible assets which are not available for use are tested for impairment annually and all other intangible assets are tested for impairment whenever events or changes in circumstance indicate that the assets might be impaired. When the carrying amount of the asset exceeds its recoverable amount, which is the higher of the asset's fair value less costs of disposal and value-in-use, an impairment loss is recognized in profit or loss in an amount equal to the excess.

The Company performed its annual intangible asset impairment test as at July 31, 2020 and no impairment was required.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

d) Critical Accounting Estimates and Judgement (continued)

Critical judgments in applying accounting policies (continued)

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.

iv. Going concern

The assessment of the Company's ability to continue as a going concern is a significant judgment. See Note 2.

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. The Company recognizes the fair value of bonus shares, and the commitment to issue shares, based on the trading price at the date of the commitment on a percentage basis on the likelihood of the completion of the event.

ii. Estimated useful lives of property, plant and equipment

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

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

d) Critical Accounting Estimates and Judgement (continued)

Key sources of estimation uncertainty (continued)

iii. Biological Assets and Inventory

Management is required to make estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include several assumptions, such as estimating the stage of growth of the cannabis plants, harvesting costs, sales price and expected yields. Further, when costs are incurred, management must use judgment to determine if they relate to the production of inventory. Costs that are considered expenses are recognized in profit or loss. Costs that relate to inventory are capitalized to inventory and are recognized in cost of goods sold when inventory is sold.

iv. Convertible debentures

The identification of the convertible debenture components has been based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components has affected the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability has been based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments. Due to an interest rate of 55%, management has determined the equity component of the compound financial instrument to be valued at \$Nil.

v. Valuation of shares issued in non-cash transactions

Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When this cannot be determined, it is based on the fair value of the non-cash consideration. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.

e) 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.

f) Convertible loan

Convertible loans issued by the Company are compound financial instruments which are accounted for separately according to their components, those being a financial liability and an equity instrument.

The financial liability component is initially recognised at the fair value of a similar liability that does not have an equity conversion option or accompanying warrants. The equity component, consisting of the conversion option or the accompanying warrant, is initially recognised as the difference between the fair value of the compound financial debt instrument as a whole and the fair value of the liability component.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

g) Share-based compensation

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant measured using the Black-Scholes option pricing model and charged to profit or loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid. If the options expire unexercised, the share-based payments remain in share-based payment reserve.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

h) Intangible assets

Identifiable intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is valued at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss. Management has estimated a useful life of 5 years for its intangible assets.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

i) Financial instruments

Recognition

The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value, and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectations of recovering the contractual cash flows on a financial asset.

Classification and Measurement

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories. Those to be measured subsequently at fair value, either through profit or loss (“FVTPL”) or through other comprehensive income (“FVTOCI”).

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

The classification and measurement bases of the Company’s financial instruments are as follows:

	IFRS 9 Classification
Cash and equivalents	FVTPL
Receivables	Amortized cost
Due to/from related parties	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Advances payable	Amortized cost
Promissory note	Amortized cost
Convertible loan	Amortized cost

After initial recognition at fair value, financial liabilities are classified and measured at either:

- i) amortized cost;
- ii) FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or,
- iii) FVTOCI, when the change in fair value is attributable to changes in the Company’s credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs for all classifications of financial instruments, other than those at FVTPL, that are directly attributable to the acquisition or issuance of a financial asset or financial liability are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at FVTPL are expensed in profit or loss.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

i) Financial instruments (continued)

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the expected credit loss has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. Given the nature and balances of the Company's receivables, the Company has no material loss allowance as at July 31, 2020.

The Company is required to disclose the inputs used in fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

j) Impairment of non-current assets

Non-current assets are evaluated at each reporting date by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash-generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent the carrying amount exceeds the recoverable amount.

In calculating recoverable amount, if applicable, the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement.

Discounted cash flow techniques often require management to make estimates and assumptions, which if incorrect, could result in a material difference in the consolidated financial statements.

k) Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in International Accounting Standard ("IAS") 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the consolidated statement of financial position date while nonmonetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the period.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

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4. Significant Accounting Policies (continued)

l) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded by providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

m) Revenue recognition

The Company follows a five-step model to determine the amount and timing of revenue to be recognized:

- i) Identifying the contract with a customer;
- ii) Identifying the performance obligations within the contract;
- iii) Determining the transaction price;
- iv) Allocating the transaction price to the performance obligations;
- v) Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from the sale of cannabis to medical customers is recognized when the Company transfers control of the good to the customer. In some cases, judgment is required in determining whether the customer is a business or the end consumer. This evaluation is made on the basis of whether the business obtains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms.

With effect from October 17, 2018, the Canada Revenue Agency ("CRA") began levying an excise tax on the sale of medical and consumer cannabis products. The Company becomes liable for these excise duties when its cannabis products are delivered to the customer. The excise taxes payable is the higher of (i) a flat-rate duty which is imposed when the cannabis product is packaged, and (ii) an advalorem duty that is imposed when the cannabis product is delivered to the customer.

Where the excise tax has been billed to its customers, the Company has reflected the excise tax as part of revenue in accordance with IFRS 15. Net revenue from the sale of goods – as presented on the consolidated statement of profit and loss – represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable / paid to the CRA cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that impacts gross profit (loss) to the extent that it is not recovered from its customers.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

n) Leases

The Company leases a number of office spaces. Under IFRS 16 Leases (“IFRS 16”), the Company assesses whether a contract to rent an item of property and equipment is, or contains, a lease. For contracts that are, or contain, leases, the Company recognizes a right-of-use asset (within property and equipment) and a lease liability at the commencement date.

Pursuant to the IFRS 16 lessee accounting model, the right-of-use asset is initially measured at cost, which includes the initial amount of the liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimates of costs to remove or dismantle the underlying asset or to restore the underlying asset or site on which the asset is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the term of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid as of the lease commencement date, discounted using the rate implicit in the lease or, if the implicit rate cannot be readily determined, the Company’s incremental borrowing rate.

The measurement of lease liabilities includes the following types of lease payments:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate as of the commencement date;
- Amounts expected to be payable under any residual value guarantees; and
- Exercise price for options that the Company is reasonably certain to exercise for an extension or option to buy, and penalties for early termination of a lease unless the Company is reasonably certain that it will not terminate the lease early. The lease liability is measured at amortized cost using the effective interest method.

The lease liability is remeasured in the following circumstances:

- If there is a change in the future lease payments resulting from a change in index or rate;
- If there is a change in the Company’s estimation of the amount expected to be payable under a residual value guarantee; and
- If the Company changes its assessment of whether it will exercise an option to purchase, extend or terminate.

The Company has elected not to recognize right-of-use assets and liabilities for short-term leases that have a term of 12 months or less and for low-value assets.

o) Newly adopted accounting policies

Effective August 1, 2019, the Company adopted the following accounting policies:

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- statement of financial position 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 became effective for the Company on August 1, 2019, and is to be applied retrospectively. IFRS 16 resulted in an increase in assets and liabilities as fewer leases will be expensed as payments are made. This also increases depreciation and interest expenses. Cash used in financing activities increases as the principal portion of lease payments are recorded as financing outflows in the Company's consolidated statement of cash flow.

The most significant effect of the new standard will be the lessee’s recognition of the initial present value of unavoidable future lease payments as right-of-use (“ROU”) assets and lease liabilities on the statement of financial position, including those for most leases that would currently be accounted for as operating leases. The impact of adoption of this standard is detailed in Note 8.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

4. Significant Accounting Policies (continued)

o) Newly adopted accounting policies (continued)

IFRIC 23 Uncertainty Over Income Tax Treatments IFRIC 23 Clarifies the application of recognition and measurement requirements in IAS 12 – Income Taxes when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. Adoption of this standard did not have a significant impact on the Company's financial statement presentation.

5. Sales taxes recoverable

During the year ended July 31, 2020, the Company wrote off \$53,195 of recoverable sales taxes due to uncollectability.

6. Biological assets

The Company's biological assets consists of cannabis plants from the Company's indoor and outdoor operations. The continuity of biological assets for the years ended July 31, 2020 and 2019 was as follows:

	Year ended July 31, 2020	Year ended July 31, 2019
Biological Assets		
Balance, beginning of year	\$ -	\$ -
Production costs capitalized	3,778,257	-
Unrealized gain on changes in fair value of biological assets	3,130,311	-
Balance, end of year	\$ 6,908,568	\$ -

As at July 31, 2020, the ending balance of Biological Assets was comprised of a cash component relating to production costs capitalized of \$3,778,257 and a fair value component related to changes in fair value less costs to sell due to biological transformation of \$3,130,311. Biological Assets as at July 31, 2020 included capitalized amortization of \$106,468. The fair value of biological assets is determined using a valuation model to estimate expected harvest yield per plant applied to the estimated price per gram less post-harvest costs. Only when there is a material change from the expected fair value used for cannabis does the Company make any adjustment to the fair value used.

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets. The capitalization of costs related to biological assets (which are accounted for under IAS 41 - Agriculture) has been performed in a manner consistent with IAS 2 - Inventories.

In determining the fair value of indoor and outdoor biological assets, management has made the following estimates in their valuation model:

- A sales price of \$1.00 per gram for outdoor and \$3.50 per gram for indoor;
- Harvest yield of 252 grams per plant for outdoor and 452 grams per plant for indoor;
- Post-harvest costs of \$0.01 per gram for both outdoor and indoor; and
- A weighted-average growing cycle length of 120 days for indoor and 145 days for outdoor.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

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6. Biological assets (continued)

The sales price used in the valuation of biological assets is based on the weighted-average selling price of all cannabis products and can vary based on different strains being grown as well as the proportion of sales derived from wholesale compared to other sources. The Company negotiated a price for its indoor cultivated product providing the basis of the sales price for indoor cultivation. The Company has yet to complete any sales of its outdoor cultivation and accordingly has estimated the outdoor price based on available market information regarding wholesale prices of cannabis biomass. Harvest yields per cannabis plant represent the grams of dry cannabis and other biomass harvested, based on actual yields by plant strain as the biological assets were all harvested as at the date of this report. Yields are also subject to a variety of factors, such as strains being grown, length of growing cycle, and space allocated for growing. The Company's yields are for cannabis biomass and not just flower or bud. Cannabis biomass typically consists of flower, trim, and other byproduct typically used for additional processing and extraction.

Post-harvest costs represent the estimated cost to process a gram of harvested cannabis, consisting of the direct and indirect cost of materials, labour, utilities and amortization of the equipment. A processed gram is a gram of cannabis that has completed drying, curing, testing, and packaging. The post-harvest costs reflect an average of the costs expected to be incurred to prepare the product into its saleable state based on the expected sales channels for the product. Management reviews all significant inputs based on historical information obtained as well as based on planned production schedules. All biological assets are classified as current assets on the consolidated statement of financial position and are considered Level 3 fair value estimates. The valuation of biological assets is based on an income approach in which the fair value at the point of harvesting is estimated based on selling prices less the costs to sell. For in-process biological assets, the fair value at point of harvest is adjusted based on the stage of growth at period end. Stage of growth is determined by reference to the plant's life relative to the stages within the harvest cycle. Management has quantified the sensitivity of the inputs and determined the following:

- Selling price per gram – an increase / decrease in the weighted-average selling price per gram by 10% would result in the fair value of the biological assets increasing / decreasing by \$694,462;
- Harvest yield per plant – an increase / decrease in the harvest yield per plant of 10% would result in the biological asset fair value increasing / decreasing by \$690,857;
- Post-harvest costs – an increase / decrease in the post-harvest costs per gram by 10% would result in the biological asset fair value increasing / decreasing by \$3,605; and
- Growth length – an increase / decrease in the growing cycle length by 10% would result in the biological fair value increasing / decreasing by \$769,239.

7. Intangible assets

On July 30, 2020, the Company entered into, and amended, a license agreement with Phenome One Corp. ("Phenome") to acquire the rights to propagate, cultivate, harvest, process and breed Phenome cultivars. On July 30, 2020, in consideration of the license agreement, the Company issued 5,000,000 common shares valued at \$2,200,000.

On July 31, 2020, the Company assessed the intangible assets for indicators of impairment and noted no significant indicators existed as at, or subsequent to, July 31, 2020. No amortization has been recorded as at July 31, 2020 as the asset was recently acquired.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements
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(Expressed in Canadian Dollars)

8. Right of Use Assets

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments excluding renewal options as they are not expected to be exercised, discounted using the Company's incremental borrowing rate as of August 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on August 1, 2019 was 10%.

The following is a reconciliation of operating lease commitments to lease obligation in accordance with IFRS 16:

Total operating lease commitments disclosed at July 31, 2019	\$	197,262
Less: short-term leases		-
Current operating lease liabilities before discounting		197,262
Discounted using incremental borrowing rate		(22,669)
Total current lease liabilities recognized under IFRS 16 at August 1, 2019	\$	174,593
Addition		69,600
Discounted using incremental borrowing rate		(6,754)
Total lease liabilities recognized under IFRS 16 at July 31, 2020	\$	237,439

The recognized right-of-use asset relates to the lease on the Canadian facilities. The change in accounting policy affected the following items in the statement of financial position on August 1, 2019:

- Right-of-use assets – increased by \$174,593
- Lease liabilities - increased by \$174,593

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

- reliance on previous assessments on whether leases are onerous
- elected to account for the payments for short-term leases and leases of low-value assets as an expense in the statement of loss on a straight-line basis over the lease term
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For the year ending July 31, 2020, the depreciation of the right of use assets were \$69,049. The right of use assets are depreciated on a straight-line basis over the term of the lease.

Right of use asset, August 1, 2019	\$	174,593
Additions		62,846
Depreciation of right of use assets		(69,049)
Right of use asset, July 31, 2020	\$	168,390

As of July 31, 2020, the Company have three agreements that are leases as defined under IFRS 16. In analyzing the identified agreements, the Company applied the lessee accounting model pursuant to IFRS 16, and considered all of the facts and circumstances surrounding the inception of the contract. Lease liabilities were calculated with a discount rate of 10%.

Lease Type	Date of Maturity
Office space – #608 – 55 East Cordova Street, Vancouver, B.C.	November 7, 2021
Office space – Unit B - 430 Lyall Street, Midway, B.C.	March 31, 2022
Office space – Unit D - 430 Lyall Street, Midway, B.C.	April 30, 2022

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

8. Right of Use Assets (continued)

For the year ending July 31, 2020, finance charges on the lease liabilities were \$16,179, included in interest and bank charges in profit or loss.

Lease liabilities, August 1, 2019	\$	174,593
Additions		62,846
Payments		(91,776)
Finance costs		16,179
Lease liabilities, July 31, 2020	\$	161,842

		July 31, 2020
Less than one year	\$	104,966
Greater than one year		56,876
Total lease liabilities, July 31, 2020	\$	161,842

Lease income

During the year ended July 31, 2020, the Company leased its land to a related party for non-cash proceeds consisting of installed irrigation equipment with a fair value of \$65,000.

9. Property, Plant and Equipment

COST	Building and Improvements		Equipment		Land		Total	
Balance, July 31, 2018	\$	3,076,763	\$	694,782	\$	449,916	\$	4,221,461
Additions		7,427,997		1,021,901		-		8,449,898
Balance, July 31, 2019		10,504,760		1,716,683		449,916		12,671,359
Additions		1,716,168		147,273		-		1,863,441
Balance, July 31, 2020	\$	12,220,928	\$	1,863,956	\$	449,916	\$	14,534,780

ACCUMULATED AMORTIZATION	Building and Improvements		Equipment		Land		Total	
Balance, July 31, 2018 and 2019	\$	-	\$	-	\$	-	\$	-
Additions		174,947		111,461		-		286,408
Balance, July 31, 2020	\$	174,947	\$	111,461	\$	-	\$	286,408

NET BOOK VALUE	Building and Improvements		Equipment		Land		Total	
Balance, July 31, 2019	\$	10,504,760	\$	1,716,683	\$	449,916	\$	12,671,359
Balance, July 31, 2020	\$	12,045,981	\$	1,752,495	\$	449,916	\$	14,248,392

On August 1, 2019, the Company started recording amortization on certain buildings, improvements and equipment which became available to use upon the Company receiving its licence to grow and completing construction of certain of its facilities. During the year ended July 31, 2020, \$106,468 of amortization was capitalized to biological assets (Note 6).

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

9. Property, Plant and Equipment (continued)

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 year ended July 31, 2019 and the amount was reclassified to buildings and improvement.

During the year ended July 31, 2020, the Company reclassified deposit of \$54,623 for construction of buildings to buildings and improvement.

10. Accounts Payable and Accrued Liabilities

	July 31, 2020		July 31, 2019
Accounts payable	\$ 2,945,404	\$	2,851,199
Accrued liabilities	269,618		62,138
Payroll tax liabilities	138,961		98,824
	\$ 3,353,983	\$	3,012,161

During the year ended July 31, 2020, the Company settled \$167,068 of debt with the issuance of 435,072 common shares, which resulted in a loss of \$50,468 (Note 14).

11. Advances Payable

During the year ended July 31, 2020, the Company received the following loans:

- i) \$143,500 unsecured non-interest bearing loan from a related party with no set repayment term. The loan was fully settled in consideration of 373,698 common shares valued at \$186,849 and resulted in a loss of \$43,350 (Note 14).
- ii) \$125,000 unsecured non-interest bearing loan with no set repayment term. The loan was fully settled in consideration of 325,521 common shares valued at \$162,760 and resulted in a loss of \$37,760 (Note 14).
- iii) \$250,000 unsecured non-interest bearing loan from a related party with no set repayment term. The loan remained outstanding at July 31, 2020.
- iv) \$150,000 unsecured non-interest bearing loan with no set repayment term. The loan remained outstanding at July 31, 2020. Subsequent to July 31, 2020, the Company repaid this loan in full.
- v) \$10,000 unsecured non-interest bearing loan from a related party with no set repayment term. The loan remained outstanding at July 31, 2020.

During the year ended July 31, 2019, the Company received the following loans:

- i) \$100,000 unsecured non-interest bearing loan with no set repayment term (Note 18). The loan remained outstanding at July 31, 2020. Subsequent to July 31, 2020, the Company applied this advance to a private placement (Note 22).
- ii) \$200,000 unsecured loan from the president of the Company bearing interest at 8% per annum with no set repayment terms. The loan accrued interest of \$1,333. During the year ended July 31, 2019, the Company settled the loan and interest by issuing 442,760 common shares valued at \$221,380 (Note 14).

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

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12. Convertible Loan

During the year ended July 31, 2020, the Company entered into a senior secured convertible loan agreement in the principal amount of \$2,000,000. The loan bears interest at a rate of 55% per annum and will be repayable as to \$1,810,000 (principal of \$710,000) on or before May 5, 2021, and \$1,999,500 (principal of \$1,290,000) on or before May 5, 2022.

The loan, including accrued interest, is convertible into common shares of the Company at a price of \$1.00 per share, subject to adjustment on the terms and condition set forth in the agreement.

The loan is secured by the Company's property in Rock Creek and a first-ranking general security agreement over all of the present and after-acquired personal property of the Company and the Guarantor.

In connection with the convertible loan, the Company has agreed to pay a finder's fee of \$190,000 on or before May 21, 2021 as a promissory note. The promissory note is unsecured and non-interest bearing.

The discount on the convertible loan is amortized using the effective interest method over the two year term of the convertible loan. The Company accretes the carrying value of the convertible loan each month by recognizing an accretion expense in profit or loss and a credit to convertible loan. During the year ended July 31, 2020, the Company recorded \$24,000 of accretion expense.

Balance, August 1, 2019	\$	-
Convertible loan principal		2,000,000
Finder's fees		(190,000)
Accretion		24,000
Interest		277,260
Convertible loan, July 31, 2020	\$	2,111,260

		July 31,
<i>Convertible loan</i>		2020
Less than one year	\$	987,260
Greater than one year		1,124,000
Total convertible loan, July 31, 2020	\$	2,111,260

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

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13. 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 year ended July 31, 2020, the Company:

- i) incurred wages, labour and management fees of \$240,000 (2019 - \$342,012) to a former director and CEO of the Company, namely Marc Geen, of which \$Nil (2019 - \$102,012) was a performance bonus paid in common share. 10,000,000 bonus shares valued at \$5,000,000 were issued during the year ended July 31, 2020 that had fully vested as at July 31, 2019.
- ii) incurred consulting fees of \$60,000 (2019 - \$60,000) capitalized to biological assets to a company controlled by a former director of the Company, namely Mervyn Geen, during his time as a director.
- iii) wrote off GST recoverable of \$Nil (2019 - \$200,127) reflected in consulting fees to a company controlled by a former director and CFO of the Company, namely Anthony Jackson, who resigned on September 6, 2018.
- iv) incurred wages, labour and management fees of \$15,000 (2019 - \$259,508) to a former director of the Company, namely Brian Peery, of which \$Nil (2019 - \$76,508) was a performance bonus paid in common shares, during his time as a director.
- v) incurred wages, labour and management fees of \$240,000 (2019 - \$20,000) and consulting fees of \$Nil (2019 - \$5,200) to the former CEO, namely Bin Huang, of the Company.
- vi) incurred wages, labour, and management fees of \$184,000 (2019 - \$50,011) capitalized to biological assets to a director of the Company, namely Frey Garabagi, of which \$Nil (2019 - \$8,011) was a performance bonus paid in common shares.
- vii) incurred wages of \$120,000 (2019 - \$95,825) to the corporate secretary of the Company for corporate secretary services, namely Deborah Cotter.
- viii) incurred consulting fees of \$102,000 (2019 - \$122,009) capitalized to biological assets to a company owned by a former director of the Company, namely Hilliard Consulting LLC, owned by Alex Kaulins.
- ix) incurred wages, labour and management fees of \$144,000 (2019 - \$Nil) capitalized to biological assets to a director of the Company, namely Patrick Geen.
- x) incurred consulting fees of \$80,000 (2019 - \$Nil) capitalized to biological assets to a company owned by a former director of the Company, namely Zreyas Consulting Inc., owned by Zena Prokosh. An additional \$63,000 was paid as severance recorded through the statement of profit and loss.
- xi) incurred professional fees of \$96,000 (2019 - \$103,000) to a partnership in which a former CFO, namely Dave Cross, has an interest.
- xii) incurred wages, labour and management fees of \$Nil (2019 - \$32,500) to a former CFO, namely Dave Cross, of the Company.
- xiii) incurred wages, labour and management fees of \$22,333 (2019 - \$Nil) to a former CFO, namely Paul Tagger, of the Company.
- xiv) granted 1,145,000 (2019 - 2,438,333) stock options to related parties with a value of \$267,735 (2019 - \$1,259,540) for options vested during the year.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

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13. Related Party Transactions and Disclosures (continued)

- xv) incurred share-based compensation of \$25,000 (2019 - \$3,407,394) to directors, officers and key management pursuant to reaching certain performance conditions (Note 19).

As at July 31, 2020, the Company had balances due to related parties of:

- i) \$Nil (2019 - \$996), which is due to a former director and CEO of the Company, namely Daniel Wettreich. The amount has no set repayment term, is unsecured and is non-interest bearing.
- ii) \$27,520 (2019 - \$27,520), which is due to a former director and CFO of the Company, namely Anthony Jackson who resigned on September 6, 2018. The amount has no set repayment term, is unsecured and is non-interest bearing.
- iii) \$163,800 (2019 - \$163,800), which is due to a company controlled by a former director and CFO of the Company who resigned on September 6, 2018, namely Bridgemark Capital Corp., controlled by Anthony Jackson. The amount has no set repayment term, is unsecured and is non-interest bearing.
- iv) \$1,875 (2019 - \$1,875), which is due to companies controlled by a former director and CFO of the Company, namely Essos Corporate Services Inc. and \$320,000 (2019 - \$320,000) Tryton Financial Corp., controlled by Von Torres who resigned on March 26, 2018. The amount has no set repayment term, is unsecured and is non-interest bearing.
- v) \$8,858 (2019 – due to \$494) which is due from the corporate secretary of the Company, namely Deborah Cotter.
- vi) \$713 (2019 - \$713) which is due to the president of the Company, namely Brian Peery. The amount has no set repayment term, is unsecured and is non-interest bearing.
- vii) \$68,668 (2019 - \$4,574) which is due to a company owned by a former director of the Company, namely Mervyn Geen. The amount has no set repayment term, is unsecured and is non-interest bearing.
- viii) \$24,465 (2019 - \$1,371) which is due to a former CFO of the Company, namely Dave Cross. The amount has no set repayment term, is unsecured and is non-interest bearing.
- ix) \$Nil (2019 - \$67,725) which is due to a partnership in which the former CFO, namely Dave Cross, has an interest. The amount has no set repayment term, is unsecured and is non-interest bearing.
- x) \$24,107 (2019 - \$962) which is due to the former CEO, namely Bin Huang, of the Company.
- xi) \$20,351 (2019 - \$7,613) which is due to a director of the Company, namely Frey Garabagi. The amount has no set repayment term, is unsecured and is non-interest bearing.
- xii) \$33,712 (2019 - \$18,000) which is due to a company owned by a former director of the Company, namely Hilliard Consulting LLC, owned by Alex Kaulins. The amount has no set repayment term, is unsecured and is non-interest bearing.
- xiii) \$6,000 (2019 - \$Nil) which is due to a director of the Company, namely Patrick Geen.

As at July 31, 2020, the Company had balances due from a related party of \$30,820 (2019 - \$11,874), which is due from a former director and CEO of the Company, namely Marc Geen.

Speakeasy Cannabis Club Ltd.
Notes to Consolidated Financial Statements
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14. Share Capital

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

During the year ended July 31, 2020, the Company:

- i) issued 10,000,000 common shares valued at \$5,000,000 pursuant to a performance agreement for the receipt of the Health Canada's license for cultivation, processing and medical sales.
- ii) issued 100,000 common shares valued at \$50,000 recorded as share-based compensation pursuant to a performance agreement for the receipt of the Medical Purposes Regulations license application ("ACMPR") from Health Canada.
- iii) issued 3,287,500 units at a price of \$0.40 per unit for proceeds of \$1,315,000. Each unit comprises of one common share and one warrant. Each warrant is exercisable into a common share at an exercise price of \$0.80 with a 12 months expiry. In connection with this private placement, the Company paid \$59,950 in finders' fees and issued 153,125 finders warrants valued at \$16,296. Each broker warrant entitles the holder to acquire one common share at an exercise price of \$0.80 per share for the period of 12 months following closing. The Company also paid other share issuance costs of \$1,300.
- iv) issued 2,000,000 common shares valued at \$1,060,000 recorded as share-based compensation pursuant to a performance agreement for the receipt of a license to sell under the ACMPR from Health Canada.
- v) issued 100,000 common shares valued at \$53,000 recorded as share-based compensation pursuant to a performance agreement for the receipt of the amending ACMPR license from Health Canada.
- vi) issued 75,000 common shares for proceeds of \$24,000 pursuant to the exercise of options, and accordingly, the Company reallocated \$25,152 of contribution surplus to share capital.
- vii) issued 600,000 common shares in settlement of \$180,000 worth of consulting services owed to an arm's length creditor.
- viii) issued 250,000 common shares valued at \$87,500 pursuant to business consulting services. In connection to the transaction, the Company also granted the following: 400,000 warrants exercisable into common shares at an exercise price of \$0.50 expiring on March 10, 2021; 400,000 warrants exercisable into common shares at an exercise price of \$0.75 expiring on March 10, 2021; and 400,000 warrants exercisable into common shares at an exercise price of \$1.00 expiring on March 10, 2021.
- ix) issued 1,134,291 common shares valued of \$567,146 in settlement of debts of \$435,568, which resulted in a gain of \$131,578. A total of 598,718 common shares were issued to a related party to settle \$227,513 in debt resulting in a loss of \$71,846. A total of 79,844 common shares were issued to a former related party to settle \$30,341 in debt resulting in a loss of \$9,581. The debt settled is comprised of amounts in accounts payable and advances payable (Note 10 and 11).
- x) issued 50,000 common shares valued at \$25,000 recorded as share-based compensation to the corporate secretary of the Company in satisfaction of the Company achieving certain milestones with respect to the BCSC order.
- xi) issued 5,000,000 common shares valued at \$2,200,000 pursuant to the acquisition of intangible assets (Note 7).

During the year ended July 31, 2019, the Company:

- i) issued 2,000 common shares at a price of \$0.50 per unit for proceeds of \$1,000.
- ii) issued 3,863,804 units at a price of \$0.60 per unit for proceeds of \$2,318,282. 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 \$44,961. Each broker warrant entitles the holder to acquire one common share at an exercise price of \$1.00 per share for the period of 24 months following closing.

Speakeasy Cannabis Club Ltd.
Notes to Consolidated Financial Statements
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14. Share Capital (continued)

- iii) issued 5,370,758 units at a price of \$0.50 per unit for proceeds of \$2,685,381. 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 month expiry. In connection with this private placement, \$122,500 in finders' fees were paid by the Company and issued 245,000 finders warrants valued at \$148,147. Each broker warrant entitles the holder to acquire one common share at an exercise price of \$1.00 per share for the period of 24 months following closing.
- iv) issued 929,242 units valued at \$464,621 to settle outstanding debt, which resulted in a loss on settlement of debt of \$15,459. 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 month expiry.
- v) issued 9,700,000 units at a price of \$0.50 per unit for proceeds of \$4,850,000. 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 month expiry.
- vi) issued 500,000 units at a price of \$0.50 per unit to settle outstanding debt of \$250,000. 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 month expiry.
- vii) issued 2,162,499 common shares valued at \$252,292 for performance bonus to key management personnel, including a reclassification of \$31,692 included in commitment to issue shares as at July 31, 2018.
- viii) issued 8,240,002 units at a price of \$0.65 per unit for proceeds of \$5,356,000. Each unit comprises of one common share and one warrant. Each warrant is exercisable into a common share at an exercise price of \$1.00 with a 24 month expiry. In connection with this private placement, \$9,425 in finders' fees were paid by the Company and issued 14,500 finders warrants valued at \$6,690. Each broker warrant entitles the holder to acquire one common share at an exercise price of \$1.00 per share for the period of 24 months following closing.
- ix) issued 1,538,461 units at a price of \$0.65 per unit to settle outstanding debt of \$1,000,000. Each unit comprises of one common share and warrant. Each warrant is exercisable into a common share at an exercise price of \$1.00 with a 24 month expiry.
- x) issued 1,745,385 units at a price of \$0.65 per unit for proceeds of \$1,134,500. Each unit comprises of one common share and one warrant. Each warrant is exercisable into a common share at an exercise price of \$1.00 with a 24 month expiry. In connection with this private placement, \$56,325 in finders' fees were paid by the Company and issued 86,500 finders warrants valued at \$39,923. Each broker warrant entitles the holder to acquire one common share at an exercise price of \$1.00 per share for the period of 24 months following closing.
- xi) issued 3,134,285 common shares pursuant to the exercise of warrants for proceeds of \$592,285, of which \$360,000 was received during the year ended July 31, 2018. Upon exercise, the Company reclassified the fair value of the warrants, \$273,544, from contributed surplus to common share capital.
- xii) issued 9,890 common shares valued at \$8,011 for performance bonus to key management personnel.

Speakeasy Cannabis Club Ltd.

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14. Share Capital (continued)

Escrowed Shares

At July 31, 2020, there were 2,400,000 (2019 – 4,800,000) shares held in escrow.

Stock Options

A summary of the status of share purchase options outstanding is presented below:

	Number of stock options	Weighted average exercise price (\$)
Balance, July 31, 2018	3,905,000	0.87
Granted	3,263,333	0.74
Expired/Cancelled	(780,000)	0.95
Balance, July 31, 2019	6,388,333	0.79
Granted	1,435,000	0.52
Exercised	(75,000)	0.32
Expired/Cancelled	(40,000)	0.80
Balance, July 31, 2020	7,708,333	0.74

The following table sets out the details of the stock options granted and outstanding as at July 31, 2020:

Expiry date	Exercise price (\$)	Number of options outstanding	Number of options exercisable
March 26, 2023*	0.95	900,000	900,000
July 23, 2023	0.70	1,300,000	1,300,000
July 23, 2023	0.95	925,000	925,000
October 23, 2023	0.70	200,000	200,000
February 28, 2024	0.90	200,000	200,000
March 12, 2024**	0.80	885,000	885,000
March 15, 2024	0.90	100,000	100,000
May 29, 2024	0.88	100,000	100,000
June 27, 2024	0.67	1,738,333	1,738,333
August 8, 2024***	0.70	200,000	87,500
November 11, 2024	0.70	240,000	80,000
January 2, 2025****	0.32	225,000	75,000
January 30, 2025	0.39	100,000	25,000
April 8, 2025	0.53	545,000	377,918
May 4, 2025	0.42	50,000	12,500
		7,708,333	7,006,251

* 75,000 stock options subsequently cancelled

** 60,000 stock options subsequently cancelled

*** 50,000 stock options subsequently cancelled

**** 225,000 stock options subsequently cancelled

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

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14. Share Capital (continued)

Stock Options (continued)

During the year ended July 31, 2020, the Company recorded stock-based compensation of \$384,868 (2019 - \$1,745,071) for the fair value of the options granted and vested using the Black-Scholes option pricing model based on the following weighted average assumptions:

Year ended July 31, 2020

Expected Volatility	159.45%
Risk-free interest rate	1.13%
Expected life in years	5 years
Expected dividend yield	0.00%
Discount rate	0.00%
Weighted average fair value per option	\$0.41

Year ended July 31, 2019

Expected Volatility	100%
Risk-free interest rate	1.54%
Expected life in years	5 years
Expected dividend yield	0.00%
Discount rate	0.00%
Weighted average fair value per option	\$0.53

Warrants

	Number of warrants	Weighted average exercise price (\$)
Balance, July 31, 2018	19,901,012	0.87
Issued	22,290,398	0.99
Exercised	(3,134,285)	0.19
Expired	(16,766,727)	1.00
Balance, July 31, 2019	22,290,398	0.99
Issued	4,640,625	0.79
Cancelled	(1,200,000)	0.75
Balance, July 31, 2020	25,731,023	0.97

The following table sets out the details of the warrants issued and outstanding as at July 31, 2020:

Expiry date	Exercise price (\$)	Number of warrants outstanding
September 27, 2020*	1.00	1,931,902
September 27, 2020**	1.00	238,648
December 6, 2020	0.80	3,287,500
December 6, 2020	0.80	153,125
March 8, 2021	1.00	8,250,000
March 8, 2021	1.00	245,000
April 24, 2021	1.00	9,778,463
April 24, 2021	1.00	14,500
April 25, 2021	1.00	1,745,385
April 25, 2021	1.00	86,500
		25,731,023

* subsequently extended to September 27, 2021

** expired subsequent to July 31, 2020

Speakeasy Cannabis Club Ltd.

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14. Share Capital (continued)

Warrants (continued)

During the year ended July 31, 2020, the Company recorded the fair value of finders fees of \$16,296 (2019 - \$239,721) and the fair value of 1,200,000 warrants issued for the acquisition of asset and consulting services of \$73,850 (2019 - \$Nil) using the Black-Scholes option pricing model based on the following weighted average assumptions:

Year ended July 31, 2020

Expected Volatility	96.67%
Risk-free interest rate	0.70%
Expected life in years	1 year
Expected dividend yield	0.00%
Discount rate	0.00%
Weighted average fair value per warrant	\$0.06

Year ended July 31, 2019

Expected Volatility	100%
Risk-free interest rate	1.85%
Expected life in years	2 years
Expected dividend yield	0.00%
Forfeiture rate	0.00%
Weighted average fair value per warrant	\$0.41

15. Capital Management

The Company's policy is to maintain a strong capital base 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 shareholders' equity. There are no restrictions on the Company's capital. There were no changes in the Company's approach to capital management during the year.

16. 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 trust accounts and a credit union in Canada. The Company does not believe its receivables are subject to significant credit risk as they consist mainly of sales taxes recoverable from a Canadian government agency.

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 15, in normal circumstances.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

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16. Financial instruments and risk management (continued)

b) Liquidity risk (continued)

Historically, the Company's source of funding has been the issuance of debt and equity securities for cash. 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, convertible loan, due to related parties, and advances payable.

c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

i) Interest rate risk

As July 31, 2020, the Company did not hold any material interest bearing investments or liabilities and has no significant interest rate risk.

ii) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. At July 31, 2020, the Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company has limited foreign currency exposure.

iii) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company is subject to risk of prices to its products due to competitive or regulatory pressures. Please refer to Note 6 for sensitivity tests on Biological Assets.

17. Segmented information

The Company operates in one industry segment, the cultivation and sale of cannabis biomass. As at July 31, 2020, the Company's long term assets were located in Canada.

18. Non-related consulting transactions

During the year ended July 31, 2019, the Company incurred consulting fees of \$Nil and share issuance costs of \$Nil to consultants on the BCSC Temporary Order dated November 26, 2018. Pursuant to the BCSC decision dated January 15, 2019, the temporary order has not been extended against the Company (Note 1). As at July 31, 2020, accounts payable and accrued liabilities of \$320,000 (2019 – \$320,000) was owing to the above parties.

As at July 31, 2020 advances payable of \$100,000 (2019 – \$100,000) is owing to above noted parties (Note 11).

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19. Commitments and Contingencies

The Company has entered into the following commitments:

- i) The Company entered into a performance agreement with the former CEO, namely Marc Geen in fiscal 2018. Per the agreement, the Company is to issue up to 6,000,000 common shares to the former CEO 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 4,000,000 shares to the former CEO. During the year ended July 31, 2020, the Company received the ACMPR and issued 10,000,000 shares to the former CEO, namely Marc Geen (Note 14).

The Company entered into a performance agreement with the former CFO, namely Anthony Jackson, of the Company in fiscal 2018. Per the agreement, the Company is to issue up to 500,000 to the former CFO, Anthony Jackson (cancelled during the year ended July 31, 2019) should the Company receive an ACMPR license from Health Canada. Furthermore, should the Company receive a license to sell under the ACMPR the Company will issue an additional 500,000 to the former CFO, Anthony Jackson, (cancelled during the year ended July 31, 2019) to the former CEO. As at July 31, 2020, as these agreements were cancelled, the Company has no further commitment to issue these performance-based shares.

The Company entered into a performance agreement with a consultant in fiscal 2018. Per the agreement, the Company is to issue up to 100,000 common shares should the Company receive an ACMPR license from Health Canada. Furthermore, should the Company receive an amended ACMPR adding the Company’s outdoor field to its license, the Company will issue an additional 100,000 shares to the consultant. During the year ended July 31, 2020, the Company received the ACMPR and issued 100,000 shares to the consultant.

During the year ended July 31, 2019, the Company recorded share-based compensation of \$3,407,394 on the commitment to issue 10,200,000 common shares and realized a recovery of \$152,711 recorded against salaries and wages as a result of the cancellation of 1,000,000 common shares, in relation to the above performance conditions.

- ii) The Company entered into performance agreements whereby certain individuals will receive bonus shares, in equal tranches, upon the Company reaching \$45,000,000, \$55,000,000 and \$65,000,000 market capitalizations, in fiscal 2018. At the date of the agreement, the Company estimated a 40% probability of reaching a \$45,000,000 market capitalization, a 20% probability of reaching a \$55million market capitalization and a 10% probability of reaching a \$65million market capitalization. During the year ended July 31, 2019, the Company met all the market capitalization targets and recorded the following share-based compensation in relation to the issuance of the following common shares:
- a) 999,999 shares were issued to a former CEO of the Company, namely Marc Geen. The Company recorded \$102,012 of share-based compensation.
- b) 375,000 shares were issued to a consultant of the Company. The Company recorded \$38,254 of share-based compensation.
- c) 37,500 shares were issued to the corporate secretary of the Company, namely Deborah Cotter. The Company recorded \$3,825 of share-based compensation.
- d) 750,000 shares were issued to a former president of the Company, namely Brian Peery. The Company recorded \$76,508 of share-based compensation.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

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19. Commitments and Contingencies (continued)

- iii) During the year ended July 31, 2017, and amended during the year ended July 31, 2018, the Company entered into a performance agreement with a consultant. Per the agreement, the Company was to issue up to 1,000,000 common shares to the consultant should the Company receive the ACMPR license from Health Canada within 12 months after signing the agreement. Furthermore, should the Company receive a license to sell under the ACMPR the Company will issue an additional 1,000,000 shares to the consultant within 15 months after signing the agreement. During the year ended July 31, 2020, the Company received the ACMPR, but the terms of the agreement had already expired. During the year ended July 31, 2020, the Company decided to issue the 2,000,000 common shares valued at \$1,060,000.
- iv) A legal claim was brought against the Company during the year by a consultant. Management considers this claim to be unjustified and the probability that it will require settlement at the Company's expense to be remote. This evaluation is consistent with external independent legal advice.
- v) There is a petition proceeding in which the petitioners seek leave to commence claims under s. 140.3 of the Securities Act, R.S.B.C. 1996, c. 418 for alleged misrepresentations made by the Company and 10 other issuers. The petitioners wish to have those claims heard as part of the class action. The Petition to the Court was filed on February 24, 2020. The Company filed a Response to Petition on February 27, 2020.
- vi) On July 11, 2019, a Notice of Civil Claim was filed against the Company along with 10 other issuers. The notice of claim alleges that the Company and the other defendants made certain misrepresentations and conspired with each other and certain consultants to injure the plaintiffs. Most defendants, including the Company, have yet to file a Response to Civil Claim. The plaintiffs have not yet delivered their materials for the certification application. Without these materials it is difficult for the Company to assess the likelihood of the case being certified or the likelihood of the plaintiffs ultimately succeeding on their claims. The Company intends to vigorously oppose the certification application if and when it is brought against the Company.

The Company may become party to litigation, from time to time, in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources. Litigation may also create a negative perception of the Company's name.

20. Supplemental disclosure of cash flow information

		July 31, 2020	July 31, 2019
Cash paid for:			
Interest	\$	-	\$ -
Income taxes	\$	-	\$ -
Non-cash transactions in investing and financing activities:			
Fair value of broker warrants exercised	\$	16,296	\$ 239,721
Common shares issued for licensing agreement	\$	2,200,000	\$ -
Shares issued to settle commitment to issue shares	\$	5,000,000	\$ -
Right-of-use assets	\$	237,439	\$ -
Construction deposit reclassified to buildings and improvement	\$	54,623	\$ 385,769
Shares issued to settle accounts payable and accrued liabilities and advances payable	\$	567,146	\$ 1,714,621
Amortization capitalized to biological assets	\$	106,468	\$ -
Finder's fees on convertible loan – promissory note	\$	190,000	\$ -
Property, plant and equipment included in accounts payable and accrued liabilities	\$	1,402,042	\$ 1,626,490

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

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21. Income taxes

The provision for income taxes differs from the amount that would have resulted in applying the combined federal statutory tax rate as follows:

	July 31, 2020	July 31, 2019
Net loss	\$ (2,677,922)	\$ (13,612,426)
Statutory income tax rate	27%	27%
Expected in tax recovery at statutory income tax rates	(723,000)	(3,675,000)
Permanent differences	441,000	1,393,000
Share issue costs	(17,000)	(90,000)
Adjustment to prior years returns	-	(43,000)
Change in unrecognized deductible temporary differences	299,000	2,415,000
Income tax recovery	\$ -	\$ -

Temporary differences that give rise to the following deferred tax assets and liabilities at are:

	July 31, 2020	July 31, 2019
Deferred tax assets		
Non-capital loss carry forwards	\$ 4,043,000	\$ 3,745,000
Share issuance costs	67,000	72,000
Allowable capital losses	14,000	14,000
Convertible loan	6,000	-
	4,130,000	3,831,000
Valuation allowance	(4,130,000)	(3,831,000)
	\$ -	\$ -

Temporary Difference	2020	Expiry Date Range	2019	Expiry Date Range
Share issuance costs	\$ 248,000	2041 to 2044	\$ 265,000	2040 to 2043
Allowable capital losses	52,000	No expiry date	52,000	No expiry date
Convertible loan	24,000	No expiry date	-	No expiry date
Non-capital losses available for future period	14,971,000	2038 to 2040	13,869,000	2038 to 2039
Canada	\$ 14,971,000	2038 to 2040	\$ 13,870,000	2038 to 2039

22. Subsequent events

Subsequent to July 31, 2020, the Company:

- i) closed the non-brokered private placement of 3,530,000 units at a price of \$0.37 for gross proceeds of \$1,306,100. Each unit consists of one common share in the capital of the Company and one common share purchase warrant. Each warrant will entitle the holder thereof to acquire an additional common share at a price of \$0.60 for a period of 24 months from closing. In connection with the private placement, the Company paid cash finders fees of \$78,366 and issued 211,800 non-transferable broker warrants. Each broker warrant entitles the holder to acquire one common share at an exercise price of \$0.60 per share for a period of 24 months following closing.
- ii) granted 417,162 stock options to a consultant exercisable at a price of \$0.60 until October 15, 2022.
- iii) granted 1,000,000 stock options to an officer and certain employees exercisable at a price of \$0.48 until October 15, 2025.

Speakeasy Cannabis Club Ltd.

Notes to Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

22. Subsequent events (continued)

- iv) closed the non-brokered private placement of 3,763,610 units at a price of \$0.37 for gross proceeds of \$1,392,536. Each unit consists of one common share in the capital of the Company and one common share purchase warrant. Each warrant will entitle the holder thereof to acquire an additional common share at a price of \$0.60 for a period of 24 months from closing. In connection with the private placement, the Company paid cash finders fees of \$47,952 and issued 129,600 non-transferable broker warrants. Each broker warrant entitles the holder to acquire one common share at an exercise price of \$0.60 per share for a period of 24 months following closing. The Company applied \$100,000 in advances payable towards the financing (Note 11).
- v) issued 877,973 common shares in settlement of debts in the amount of \$324,850.