# Speakeasy Cannabis Club Ltd.

## CONSOLIDATED FINANCIAL STATEMENTS

**For the years ended July 31, 2019 and 2018**

**(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, 2019, and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the year 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, 2019, and its financial performance and its cash flows for the year 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 $34,384,895 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.

***Emphasis of Matter***

We draw attention to Note 10 and 16 which describes the amounts paid on significant contracts, and Note 1 of the financial statements which describes the provincial securities commission investigation of the significant contracts and parties related thereto.

***Other Matters***

The consolidated financial statements of Speakeasy Cannabis Club Ltd. for the year ended July 31, 2018 were audited by DMCL who expressed an unmodified opinion on those statements on January 29, 2019.

***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

November 28, 2019

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

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and equivalents | $ | 3,922,921 | $ | 588,041 |
| GST/HST recoverable | | 560,971 | | 326,385 |
| Due from a related party (note 10) | | 11,044 | | - |
| Prepaids | | 76,363 | | 10,000 |
| Construction deposit (note 7) | | 65,471 | | 385,769 |
| **Total current assets** | | 4,636,770 | | 1,310,195 |
| **Non-current assets** | | | | |
| Property, plant and equipment (note 7) | | 12,671,359 | | 4,221,461 |
| **Total non-current assets** | | 12,671,359 | | 4,221,461 |
| **Total assets** | $ | 17,308,129 | $ | 5,531,656 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities (note 8) | $ | 3,012,161 | $ | 912,258 |
| Advances payable (note 9) | | 100,000 | | - |
| **Total liabilities** | | 3,112,161 | | 912,258 |
| **Shareholders' equity** | | | | |
| Common share capital (note 11) | | 38,604,300 | | 19,989,543 |
| Contributed surplus (note 11) | | 4,976,563 | | 3,418,026 |
| Commitment to issue shares (note 12) | | 5,000,000 | | 1,624,289 |
| Share subscriptions received in advance (note 11) | | - | | 360,000 |
| Deficit | | (34,384,895) | | (20,772,469) |
| **Total shareholders' equity** | | 14,195,968 | | 4,619,398 |
| **Total liabilities and shareholders' equity** | $ | 17,308,129 | $ | 5,531,656 |

Nature of operations (note 1)
Going concern assumption (note 2)
Commitments and contingencies (note 12)
Subsequent events (note 19)

The 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,**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Operating Expenses** | | | | |
| Advertising and promotion | **$** | **37,842** | $ | 12,030 |
| Automobile | | **89,294** | | 37,164 |
| Consulting fees (note 10 and 15) | | **2,505,670** | | 2,056,827 |
| Crop development costs | | **1,303,180** | | - |
| Filing and listing fees | | **63,534** | | 36,782 |
| Interest income | | **(19,239)** | | (7,310) |
| Impairment of loan receivable (note 6) | | **-** | | 103,000 |
| Loss on settlement of debt (note 11) | | **15,459** | | - |
| Legal and professional fees (note 10) | | **497,096** | | 136,373 |
| Listing expense (note 5) | | **-** | | 12,737,998 |
| Marketing fees | | **117,316** | | 511,539 |
| Meals and entertainment | | **12,177** | | 12,000 |
| Office and general expenses | | **772,867** | | 320,130 |
| Repairs and maintenance | | **4,787** | | 34,709 |
| Share-based compensation (notes 11 and 12) | | **5,152,465** | | 3,288,931 |
| Travel | | **162,937** | | 164,169 |
| Wages, labour and management fees (note 10) | | **2,897,041** | | 1,328,127 |
| **Loss and comprehensive loss** | **$** | **(13,612,426)** | $ | (20,772,469) |
| **Basic and diluted loss per share** | **$** | **(0.20)** | $ | (0.60) |
| **Weighted average number of common shares outstanding - basic and diluted** | | **66,457,943** | | 34,427,986 |

The 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,**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Loss for the year | $ | **(13,612,426)** | $ | (20,772,469) |
| Adjustment for non-cash item | | | | |
| Loss on settlement of debt | | **15,459** | | - |
| Listing expense | | **-** | | 12,737,998 |
| Share-based compensation | | **5,152,465** | | 3,288,931 |
| Shares for services | | **75,900** | | 224,750 |
| Accrued interest | | **-** | | (7,310) |
| Impairment of loan receivable | | **-** | | 103,000 |
| Net changes in non-cash working capital: | | | | |
| GST/HST recoverable | | **(234,586)** | | (191,399) |
| Prepaids | | **(66,363)** | | - |
| Due from a related party | | **(11,044)** | | - |
| Accounts payable and accrued liabilities | | **2,078,692** | | 672,044 |
| **Net cash used in operating activities** | | **(6,601,903)** | | (3,944,455) |
| **Investing activities** | | | | |
| Expenditures on property, plant and equipment | | **(6,543,756)** | | (2,608,034) |
| Loan receivable | | **-** | | (103,000) |
| Deposit on building | | **(65,471)** | | (395,769) |
| Advances received | | **300,000** | | - |
| **Net cash used in investing activities** | | **(6,309,227)** | | (3,106,803) |
| **Financing activities** | | | | |
| Cash assumed on reverse takeover | | **-** | | 2,981,453 |
| Advances received prior to reverse takeover | | **-** | | 578,654 |
| Proceeds from issuance of shares | | **16,345,163** | | 2,980,750 |
| Proceeds from exercise of warrants | | **232,285** | | 738,412 |
| Share issuance costs | | **(331,438)** | | - |
| Share subscription received in advance | | **-** | | 360,000 |
| **Net cash provided by financing activities** | | **16,246,010** | | 7,639,269 |
| **Net change in cash and equivalents** | | **3,334,880** | | 588,011 |
| **Cash and equivalents, beginning of year** | | **588,041** | | 30 |
| **Cash and equivalents, end of year** | **$** | **3,922,921** | $ | 588,041 |

Supplemental disclosure of cash flow information - Note 17

The 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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Subscription received in advance | Commitment to issue shares | Contributed surplus | Deficit | Total |
| **Balance July 31, 2017** | **300** | **$ 30** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 30** |
| Reversal of 10161233 Canada Ltd. shares | (300) | (30) | - | - | - | - | (30) |
| Shares issued - Transaction (note 5) | 12,000,000 | - | - | - | - | - | - |
| Recapitalization - Transaction (note 5) | 29,750,686 | 14,875,343 | - | - | 2,423,681 | - | 17,299,024 |
| Finder's fee (note 5) | 1,000,000 | 500,000 | - | - | - | - | 500,000 |
| Shares for services (note 11) | 387,500 | 224,750 | - | - | - | - | 224,750 |
| Private placements (note 11) | 4,285,714 | 3,000,000 | - | - | - | - | 3,000,000 |
| Share issuance costs | - | (19,250) | - | - | - | - | (19,250) |
| Warrants exercised (note 11) | 2,296,412 | 1,408,700 | - | - | (670,288) | - | 738,412 |
| Subscriptions received in advance (note 11) | - | - | 360,000 | - | - | - | 360,000 |
| Share based compensation (note 11) | - | - | - | 1,777,009 | 1,511,922 | - | 3,288,931 |
| Loss | - | - | - | - | - | (20,772,469) | (20,772,469) |
| **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 (note 11) | 28,921,949 | 16,345,163 | - | - | - | - | 16,345,163 |
| Share issuance costs | - | (571,159) | - | - | 239,721 | - | (331,438) |
| Warrants exercised (note 11) | 3,134,285 | 865,829 | (360,000) | - | (273,544) | - | 232,285 |
| Shares issued for debt settlement (note 11) | 2,967,703 | 1,714,621 | - | - | - | - | 1,714,621 |
| Share based compensation (notes 11 and 12) | 2,172,389 | 260,303 | - | 3,222,991 | 1,745,071 | - | 5,228,365 |
| Loss | - | - | - | - | - | (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** |

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

## 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, and has an application for a license under the Access to Cannabis for Medical Purposes Regulations ("AMCPR") to become licensed producer of medical cannabis in Canada (received subsequent to July 31, 2019 – note 19). The head office and registered records office of the Company is located at 1515 Myers Creek Road West Rock Creek, British Columbia V0H 1Y0, Canada.

On April 2, 2018, the Company acquired 100% of the issued and outstanding common shares of 10161233 Canada Ltd. ("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 (note 5).

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.

Pursuant to the BCSC decision dated January 15, 2019, the temporary order has not been extended against the Company.

## 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, 2019, the Company has incurred losses totaling $34,384,895 (2018 - $20,772,469) 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.

## 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 28, 2019, 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.

**(Expressed in Canadian Dollars)**

## 3. Statement of Compliance and Basis of Presentation (continued)

### (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) Newly adopted accounting policies

Effective August 1, 2018, the Company adopted the following accounting policies. There were no significant impacts to the financial statements upon adoption.

*IFRS 9 Financial Instruments* replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement, replacing the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 prohibits reclassifications except in rare circumstances when the entity's business model changes. The new standard removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract to be classified in its entirety at either amortized cost or fair value. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

### b) Future accounting policies not yet adopted

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 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. The Company expects that IFRS 16 will result in an increase in assets and liabilities as fewer leases will be expensed as payments are made. This will result in an increase in depreciation and interest expenses. The Company also expects cash used in financing activities to increase as the principal portion of lease payments will be recorded as financing outflows in the Company's consolidated statement of cash flow.

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. The Company does not expect an impact on adopting this standard.

### c) 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 of 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 | 4% | declining balance |
| Equipment | 20% | 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.

## 4. Significant Accounting Policies (continued)

### 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, 2019, there were no indications that certain tangible assets of the Company are impaired. The effect of this impairment is recorded in the Company's consolidated statement of loss and comprehensive loss.

ii. Identifying acquirer in transaction with Speakeasy

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

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.

**4. Significant Accounting Policies (continued)**

**d) Critical Accounting Estimates and Judgments (continued)**

**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.

**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) Share-based payments transactions**

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.

## 4. Significant Accounting Policies (continued)

### f) Share-based payments transactions (continued)

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.

### g) 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).

**4. Significant Accounting Policies (continued)**

**g) Financial instruments (continued)**

The classification and measurement bases of the Company's financial instruments as at August 1, 2018 as a result of adopting IFRS 9 (along with comparison to IAS 39) are as follows:

| | IAS 39 Classification | IFRS 9 Classification |
|---|---|---|
| Cash | FVTPL | FVTPL |
| Receivables | Loans and receivables | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Advances payable | Other liabilities | 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.

*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 at adoption or as at July 31, 2019.

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.

## 4. Significant Accounting Policies (continued)

### h) 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.

### i) Cash and cash equivalents

Cash and cash equivalents consist of cash held with banks 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, 2019, the Company held cash of $61,424 (2018 - $588,041) and cash equivalents in the form of guaranteed investment certificates of $3,861,497 (2018 - $Nil).

### j) 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.

**(Expressed in Canadian Dollars)**

## 5. Reverse Takeover Transaction

The Transaction was accounted for as a reverse takeover whereby 10161233 obtained a listing on the CSE as well as obtaining financing for the further development of its business. Management determined that, for accounting purposes, the acquirer was 10161233 on the basis that:

- Excluding a financing completed by the Company prior to and in anticipation of the Transaction, the shareholders of 10161233 obtained a larger number of the combined entity's common shares than the existing shareholders;
- Senior management of the Company, subsequent to the Transaction, is substantially comprised of that of 10161233;
- The only assets of the Company prior to the Transaction were cash and assets that were directly related to and dependent on the completion of the Transaction; and
- The shareholders of 10161233 obtained a large minority voting interest.

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

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

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

The difference between the fair value of the consideration paid and the fair value of the net assets of the Company of $12,737,998 has been reflected as a listing expense, being the cost of 10161233 obtaining a listing on the CSE.

The fair value of the 29,750,686 shares deemed to be issued was estimated to be $0.50 per share using the price of the private placement that occurred prior to the transaction.

**(Expressed in Canadian Dollars)**

### 5. Reverse Takeover Transaction (continued)

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

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

The Company assumed an additional 12,911,710 warrants exercisable at a price of $1.00 per share expiring on November 6, 2018. The fair value of the warrants was $719,448, estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

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

### 6. Loan Receivable

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

### 7. Property, Plant and Equipment

| COST | Building and Improvements | Equipment | Land | Total |
|---|---|---|---|---|
| **Balance, July 31, 2017** | $ - | $ - | $ - | $ - |
| Additions | 3,076,763 | 694,782 | 449,916 | 4,221,461 |
| **Balance, July 31, 2018** | 3,076,763 | 694,782 | 449,916 | 4,221,461 |
| Additions | 7,427,997 | 1,021,901 | - | 8,449,898 |
| **Balance, July 31, 2019** | **$ 10,504,760** | **$ 1,716,683** | **$ 449,916** | **$ 12,671,359** |

No amortization has been taken on the Property, Plant and Equipment for all periods presented, as they are not available for use.

Included in buildings and improvements additions during fiscal 2018 is a payment of $2,000,000 paid to a company controlled by the chairman of the Company's board of directors for a 290 acre property.

During the year ended July 31, 2018, the Company paid a deposit of $385,769 for construction of buildings. The construction was completed during the year ended July 31, 2019 and the amount was reclassified to buildings and improvement.

**(Expressed in Canadian Dollars)**

## 8. Accounts Payable and Accrued Liabilities

| | | July 31, 2019 | | July 31, 2018 |
|---|---|---|---|---|
| Accounts payable | $ | **2,851,199** | $ | 786,353 |
| Accrued liabilities | | **62,138** | | 125,905 |
| Payroll tax liabilities | | **98,824** | | - |
| | $ | **3,012,161** | $ | 912,258 |

## 9. Advances Payable

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 16).

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. The Company settled the loan and interest by issuing 442,760 common shares valued at $221,380 (note 11).

## 10. 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, 2019 the Company,

i) incurred wages, labour and management fees, of $342,012 (2018 - $105,000) to a former director and CEO of the Company, namely Marc Geen, of which $102,012 was a performance bonus paid in common shares.

ii) incurred consulting fees of $60,000 (2018 - $35,000) to a company controlled by a former director of the Company, namely Mervyn Geen.

iii) incurred consulting fees of $Nil (2018 - $32,110) and wrote off GST recoverable of $200,127 (2018 - $Nil) reflected in consulting fees and incurred share issuance costs of $Nil (2018 - $855,085) to a company controlled by a former director and CFO of the Company, namely Anthony Jackson, who resigned on September 6, 2018.

iv) incurred consulting fees of $Nil (2018 - $4,000) to Von Torres, a former CFO and director of the Company who resigned on March 26, 2018.

v) incurred consulting fee of $Nil (2018 - $228,571) to a company controlled by a former director and CFO of the Company, namely Sway Capital Corp., controlled by Von Torres, who resigned on March 26, 2018.

vi) incurred professional fees of $103,000 (2018 - $Nil) to a partnership in which a former CFO, namely Dave Cross, has an interest.

vii) incurred wages, labour and management fees of $32,500 (2018 - $Nil) to a former CFO, namely Dave Cross, of the Company.

viii) incurred wages, labour and management fees of $259,508 (2018 - $Nil) to a former director of the Company, namely Brian Peery, of which $76,508 was a performance bonus paid in common shares.

## 10. Related Party Transactions and Disclosures (continued)

ix) incurred wages, labour and management fees of $20,000 (2018 - $Nil) and consulting fees of $5,200 (2018 - $Nil) to the CEO, namely Bin Huang, of the Company.

x) incurred wages, labour and management fees of $50,011 (2018 - $Nil) to a director of the Company, namely Frey Garabagi, of which $8,011 was a performance bonus paid in common shares.

xi) incurred wages, labour and management fees of $95,825 (2018 - $Nil) to the former corporate secretary of the Company for corporate secretary services, namely Deborah Cotter, of which $3,825 was a performance bonus paid in common shares.

xii) incurred consulting fees of $122,009 (2018 - $Nil) to a company owned by a former director of the Company, namely Hilliard Consulting LLC, owned by Alex Kaulins.

xiii) issued 2,438,333 (2018 - 3,195,000) stock options to related parties with a fair value of $1,259,540 (2018 - $1,255,911).

xiv) issued Nil (2018 – 12,500) shares for corporate secretary services with a fair value of $Nil (2018 - $7,250) to the former corporate secretary of the Company, namely Deborah Cotter.

xv) issued Nil (2018 - 250,000) shares with a fair value of $Nil (2018 - $145,000) for services provided by the president of the Company, namely Brian Peery.

xvi) incurred share-based compensation of $3,407,394 (2018 - $1,592,606) to directors, officers and key management pursuant to reaching certain performance conditions (Note 12).

As at July 31, 2019, the Company had balances due to related parties of:

i) $996 (2018 - $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 (2018 - $2,500), 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 (2018 - $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 (2018 - $1,875), which is due to a company controlled by a former director and CFO of the Company, namely Essos Corporate Services Inc. 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) $494 (2018 - $3,794) which is due to the former corporate secretary of the Company, namely Deborah Cotter. The amount has no set repayment term, is unsecured and is non-interest bearing.

vi) $713 (2018 - $Nil) 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) $4,574 (2018 - $Nil) 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) $1,371 (2018 - $Nil) 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.

## 10. Related Party Transactions and Disclosures (continued)

ix) $67,725 (2018 - $Nil) 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) $962 (2018 - $Nil) which is due to the CEO, namely Bin Huang, of the Company.

xi) $7,613 (2018 - $Nil) 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) $18,000 (2018 - $Nil) 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.

As at July 31, 2019, the Company had balances due from a related party of $11,874 (2018 - $Nil), which is due from a former director and CEO of the Company, namely Marc Geen

## 11. Common 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, 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.

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 months 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 months 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 months 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 months 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.

**11. Share Capital (continued)**

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 months 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 months 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 months 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.

During the year ended July 31, 2018, the Company:

i) issued 4,285,714 units at a price of $0.70 per unit for proceeds of $3,000,000. Each unit comprises of one common share and one warrant. Each warrant is exercisable into a common share at an exercise price of $1.00 with a 1 year expiry. In connection with this private placement, $19,250 in finders' fees were paid by the Company. Of the proceeds raised, $1,213,809 was immediately paid pursuant to consulting agreement that were entered into concurrently with the financing (note 16).

ii) issued 2,296,412 common shares pursuant to the exercise of warrants for proceeds of $738,412.

iii) issued 387,500 shares with a fair value of $224,750 for services provided.

iv) entered into employment agreements with officers and key management of the Company under which they will issue up to 2,162,499 should the Company reach certain market capitalization targets. The Company has recorded a total of $31,692 in share-based compensation in relation to the contingency to issue shares (note 12).

**Escrowed Shares**

At July 31, 2019, there were 4,800,000 shares held in escrow. Under the applicable escrow agreements, 1,200,000 shares were released subsequent to the year ended July 31, 2019.

**(Expressed in Canadian Dollars)**

**11. Share Capital (continued)**

**Stock Options**

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

i) granted 0 incentive stock options to an employee and consultant with a fair value of $91,277. The options are exercisable at a price of $0.70 per share for a period of 5 years. The options were fully vested on the grant date.

ii) granted 200,000 incentive stock options to an employee with a fair value of $139,951. The options are exercisable at a price of $0.90 per share for a period of 5 years. The options were fully vested on the grant date.

iii) granted 925,000 incentive stock options to employees and consultants with a fair value of $560,904. The options are exercisable at a price of $0.80 per share for a period of 5 years. 850,000 options were fully vested on the grant date. 75,000 vest upon receipt of the AMCPR (Note 19).

iv) granted 100,000 incentive stock options to a director of the Company with a fair value of $77,792. The options are exercisable at a price of $0.90 per share for a period of 5 years. The options were fully vested on the grant date.

v) granted 100,000 incentive stock options to a director of the Company with a fair value of $67,659. The options are exercisable at a price of $0.86 per share for a period of 5 years. The options were fully vested on the grant date.

vi) granted 1,738,333 incentive stock options to the CEO of the Company with a fair value of $807,488. The options are exercisable at a price of $0.67 per share for a period of 5 years. The options were fully vested on the grant date.

During the year ended July 31, 2018, the Company:

i) granted 1,605,000 incentive stock options to directors, officers and consultants with a fair value of $530,188. The options are exercisable at a price of $0.95 per share for a period of 5 years. The options were fully vested on the grant date.

ii) granted 1,300,000 incentive stock options to senior management and a consultant with a fair value of $560,846 exercisable at a price of $0.70 per share for a period of 5 years. Of these options, 1,250,000 vest immediately. During the year ended July 31, 2019, the remaining 50,000 options were vested at $27,012.

iii) granted 1,000,000 incentive stock options to directors, officers and consultants with a fair value of $420,888. The options are exercisable at a price of $0.95 per share for a period of 5 years. The options were fully vested on the grant date.

| | Number of stock options | Weighted average exercise price ($) |
|---|---|---|
| **Balance, July 31, 2017** | **-** | **-** |
| Granted | 3,905,000 | 0.87 |
| Balance, July 31, 2018 | 3,905,000 | 0.87 |
| Granted | 3,263,333 | 0.74 |
| Expired/Cancelled | (780,000) | 0.95 |
| **Balance, July 31, 2019** | **6,388,333** | **0.79** |

**(Expressed in Canadian Dollars)**

**11. Share Capital (continued)**

**Stock Options (continued)**

The following table sets out the details of the stock options granted and outstanding as at July 31, 2019:

| 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 | 925,000 | 850,000 |
| 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 |
| | | **6,388,333** | **6,313,333** |

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

*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 |

*Year ended July 31, 2018*

| | |
|---|---|
| Expected Volatility | 100% |
| Risk-free interest rate | 2.06% |
| Expected life in years | 5 years |
| Expected dividend yield | 0.00% |
| Discount rate | 0.00% |
| Weighted average fair value per option | $0.39 |

**(Expressed in Canadian Dollars)**

## 11. Share Capital (continued)

### Warrants

| | Number of warrants | Weighted average exercise price ($) |
|---|---|---|
| **Balance, July 31, 2017** | **-** | **-** |
| Warrants of Speakeasy at time of Transaction (Note 5) | 17,911,710 | 0.18 |
| Issued | 4,285,714 | 1.00 |
| Exercised | (2,296,412) | 0.34 |
| Balance, July 31, 2018 | 19,901,012 | 0.87 |
| 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** |

The following table sets out the details of the warrants issued and outstanding as at July 31, 2019:

| Expiry date | Exercise price ($) | Number of warrants outstanding |
|---|---|---|
| September 27, 2020 | 1.00 | 2,170,550 |
| 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 |
| | **1.00** | **22,290,398** |

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

*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 option | $0.41 |

## 12. 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. Subsequent to July 31, 2019, the Company received the ACMPR and issued 10,000,000 shares to the former CEO, namely Marc Geen (Note 19).

**12. Commitments and Contingencies (continued)**

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, 2019, 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. Subsequent to July 31, 2019, the Company received the ACMPR and issued 100,000 shares to the consultant, and has a commitment to issue the remaining 100,000 common shares upon receipt of an amended ACMPR (Note 19).

During the year ended July 31, 2019, the Company recorded share-based compensation of $3,407,394 (2018 - $1,745,317) on the commitment to issue 10,200,000 common shares and realized a recovery of $152,711 (2018 - $Nil) 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 $45million, $55million and $65million market capitalizations, in fiscal 2018. At the date of the agreement, the Company estimated a 40% probability of reaching a $45million 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 (2018 - $14,655) of share-based compensation.

b. 375,000 shares were issued to a consultant of the Company. The Company recorded $38,254 (2018 - $5,496) of share-based compensation.

c. 37,500 shares were issued to a former corporate secretary of the Company, namely Deborah Cotter. The Company recorded $3,825 (2018 - $550) 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 (2018 - $10,992) of share-based compensation.

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. Subsequent to July 31, 2019, the Company received the ACMPR, but the terms of the agreement had already expired. Accordingly, there is no share-based compensation recorded in fiscal 2019 or 2018 for this previous performance condition. The Company is currently in negotiations with the consultant.

## 13. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the development of its projects and to sustain future development of the business. The capital structure of the Company consists of 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.

## 14. Financial instruments and risk management

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

### a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with a major bank in Canada. As all of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institutions as determined by rating agencies. The Company does not believe its receivables are subject to significant credit risk.

### 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.

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

The Company's financial liabilities are comprised of its accounts payable and accrued liabilities 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, 2019, 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, 2019, the Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company has limited foreign currency exposure.

**(Expressed in Canadian Dollars)**

## 14. Financial instruments and risk management (continued)

iii) Price risk

The recoverability of the Company's property, plant and equipment assets is indirectly related to the market price of cannabis. The Company is not currently directly exposed to fluctuations in commodity prices as the Company currently has no production.

## 15. Segmented information

The Company operates in one industry segment, cultivation and sale of medical cannabis. The Company's property, plant and equipment at July 31, 2019 of $12,671,359 is located in Canada.

## 16. Non-related consulting transactions

During the year ended July 31, 2019, the Company incurred consulting fees of $Nil (2018 - $1,466,276) and share issuance costs of $Nil (2018 - $250,000) 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, 2019, accounts payable and accrued liabilities of $320,000 (2018 – $320,000) was owing to the above parties. The remaining consulting fees on the statement of loss and comprehensive loss, excluding those disclosed in Note 10, were to arm's length parties.

As at July 31, 2019 advances payable of $100,000 (2018 – $Nil) is owing to above noted parties (Note 9).

## 17. Supplemental disclosure of cash flow information

| | | July 31, 2019 | | July 31, 2018 |
|---|---|---|---|---|
| Cash paid for: | | | | |
| Interest | $ | - | $ | - |
| Income taxes | $ | - | $ | - |
| | | | | |
| Non-cash transactions in investing and financing activities: | | | | |
| Construction deposit reclassified to buildings and improvement | $ | 385,769 | $ | - |
| Fair value of broker warrants | $ | 239,721 | $ | - |
| Shares for debt | $ | 1,714,621 | $ | 224,750 |
| Property, plant and equipment included in accounts payable and accrued liabilities | $ | 1,626,490 | $ | 106,117 |
| Deposit assumed on acquisition | $ | - | $ | 1,500,000 |

**(Expressed in Canadian Dollars)**

## 18. 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, 2019 | July 31, 2018 |
|---|---|---|
| Net loss | $ (13,612,426) | $ (20,772,469) |
| Statutory income tax rate | 27% | 27% |
| Expected in tax recovery at statutory income tax rates | (3,675,000) | (5,609,000) |
| Permanent differences | 1,393,000 | 3,911,000 |
| Share issue costs | (90,000) | - |
| Adjustment to prior years returns | (43,000) | - |
| Change in unrecognized deductible temporary differences | 2,415,000 | 1,416,000 |
| Other | - | 282,000 |
| Income tax recovery | **$ -** | **$ -** |

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

| | July 31, 2019 | July 31, 2018 |
|---|---|---|
| Deferred tax assets | | |
| Non-capital loss carry forwards | $ 3,745,000 | $ 1,389,000 |
| Share issuance costs | 72,000 | 27,000 |
| Allowable capital losses | 14,000 | - |
| | 3,831,000 | 1,416,000 |
| Valuation allowance | (3,831,000) | (1,416,000) |
| | **$ -** | **$ -** |

As at July 31, 2019, the Company has non-capital losses of approximately $13,869,000 (2018 - $5,140,000) to offset against future income, expiring in 2039, share issuance costs of $265,000 (2018 - $1,000) expiring 2043, and $52,000 in allowable capital losses with no expiry.

## 19. Subsequent events

Subsequent to the year ended July 31, 2019, the Company:

i) received Health Canada’s license for cultivation, processing and medical sales and issued 10,000,000 bonus shares (note 12).

ii) granted 440,000 incentive options to a director, employees, and consultants of the Company. The options are exercisable at a price of $0.70 per share for a period of 5 years. The options vest over three years

iii) issued 100,000 bonus shares to an advisory board member pursuant to a services agreement (Note 12).