



Chemistree Technology Inc.

Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Chemistree Technology Inc.

Opinion

We have audited the accompanying consolidated financial statements of Chemistree Technology Inc. (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2019 and 2018, 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 June 30, 2019 and 2018, 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 1 of the consolidated financial statements, which indicates that the Company had working capital of \$8,311,037 and an accumulated deficit of \$16,246,194 as at June 30, 2019. As stated in Note 1, 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 Erez Bahar.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

October 25, 2019

Chemistree Technology Inc.

(in Canadian Dollars)

Consolidated Statements of Financial Position

As at June 30,	2019	2018
ASSETS		
Current		
Cash and cash equivalents	\$ 7,286,516	\$ 2,662,002
Trade and other receivables (Note 4)	245,714	7,374
Taxes receivable	76,681	7,411
Note receivable (Note 14)	610,061	-
Prepays and deposits	67,825	42,219
Marketable Securities (Note 13)	174,050	-
	8,460,847	2,719,006
Non-current assets		
Property and equipment (Note 4)	2,783,988	1,323,245
Trade and other receivables (Note 4)	500,000	-
	\$ 11,744,835	\$ 4,042,251
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 113,160	\$ 316,337
Due to related parties (Note 6)	2,445	9,408
Interest payable (Note 5)	34,205	14,707
	149,810	340,452
Convertible debentures (Note 8)	7,096,455	-
Notes payable (Note 5)	443,959	421,959
	7,690,224	762,411
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	17,075,475	13,896,322
Equity reserves (Notes 7)	3,225,330	964,611
Deficit	(16,246,194)	(11,581,093)
	4,054,611	3,279,840
	\$ 11,744,835	\$ 4,042,251

Nature and continuance of operations (Note 1)

Commitment (Note 15)

Events after the reporting period (Note 17)

Approved by the board on October 25, 2019:

Signed: "Karl Kottmeier"
Director

Signed: "Douglas Ford"
Director

Chemistree Technology Inc.

(in Canadian Dollars)

Consolidated Statements of Loss and Comprehensive Loss

For the years ended June 30,	2019	2018
Revenue (Note 3)	\$ 317,736	\$ -
Cost of sales	(247,518)	-
Gross margin	\$ 70,218	\$ -
Expenses		
Business development	4,975	156,327
Depreciation	276,323	-
Consulting	151,482	-
Accretion and finance costs (Note 8)	432,461	-
General and administrative (Note 6)	2,088,635	100,886
Insurance	20,849	16,134
Interest expense	19,497	14,707
Management fees (Note 6)	384,561	240,000
Professional fees	742,692	133,882
Share-based payments (Note 7)	825,500	58,500
Transfer agent and regulatory fees	91,460	33,121
Travel	124,182	23,520
Total expenses	(5,162,617)	(777,077)
Foreign exchange gain (loss)	(53,301)	17,973
Interest income	46,312	56
Gain on sale of Marketable Securities (Note 13)	100,525	-
Recovery of deferred income tax liability (Note 16)	262,685	-
Other income	277	20,573
Adjustment for change in fair value of Marketable Securities (Note 13)	70,800	-
Loss and comprehensive loss	\$ (4,665,101)	\$ (738,475)
Basic and diluted loss per share	\$ (0.13)	\$ (0.04)
Weighted average number of shares outstanding - basic and diluted	34,589,602	19,515,142

Chemistree Technology Inc.

(in Canadian Dollars)

Consolidated Statements of Cash Flows

For the years ended June 30,	2019	2018
OPERATING ACTIVITIES		
Loss for the year	\$ (4,665,101)	\$ (738,475)
Items not affecting cash:		
Depreciation	276,323	-
Accrual of interest receivable	(21,177)	-
Accrual of interest payable	19,498	14,707
Share-based payments	825,500	58,500
Fair value adjustment for marketable securities	(70,800)	-
Accretion of convertible debentures	164,733	-
Gain on sale of marketable securities	(100,525)	-
Recovery of deferred income tax liability	(262,685)	-
Changes in non-cash working capital items:		
Receivables and prepaids	(833,216)	(50,085)
Accounts payable and accrued liabilities, and due to related parties	(210,140)	-
Interest payable	-	21,856
Cash used in operating activities	(4,877,590)	(693,497)
INVESTING ACTIVITIES		
Property and equipment purchases	(1,737,066)	(1,059,885)
Marketable Securities purchases	(245,000)	-
Proceeds from sale of Marketable Securities	242,275	-
Note receivable	(588,884)	-
Cash used in investing activities	(2,328,675)	(1,059,885)
FINANCING ACTIVITIES		
Common shares issued for cash	2,361,385	4,107,520
Share issue costs	(99,790)	(173,854)
Proceeds from notes payable	22,000	345,923
Proceeds from debentures, net of transaction costs	9,547,184	-
Cash provided by financing activities	11,830,779	4,279,589
Change in cash and cash equivalents during the year	4,624,514	2,526,207
Cash and cash equivalents, beginning of year	2,662,002	135,795
Cash and cash equivalents, end of year	\$ 7,286,516	\$ 2,662,002
Cash paid for:		
Interest	\$ 260,756	\$ -
Income taxes	\$ -	\$ -
Cash and cash equivalents comprises:		
	2019	2018
Cash	\$ 1,286,516	\$ 2,657,002
Cash equivalents	6,000,000	5,000
	\$ 7,286,516	\$ 2,662,002

Supplemental disclosure with respect to cash flows (Note 11)

Chemistree Technology Inc.

(in Canadian Dollars)

Consolidated Statements of Changes in Shareholders' Equity For the years ended June 30,

	Number of shares	Share capital	Equity reserves	Deficit	Total
Balance, June 30, 2017	15,148,405	10,107,349	761,418	(10,842,618)	26,149
Private placement	13,504,571	4,107,520	-	-	4,107,520
Share issue costs – cash	-	(173,854)	-	-	(173,854)
Share issue costs – warrants	-	(144,693)	144,693	-	-
Share-based payments - options	-	-	58,500	-	58,500
Loss for the year	-	-	-	(738,475)	(738,475)
Balance, June 30, 2018	28,652,976	\$ 13,896,322	\$ 964,611	\$ (11,581,093)	\$ 3,279,840
Balance, June 30, 2018	28,652,976	\$ 13,896,322	\$ 964,611	\$ (11,581,093)	\$ 3,279,840
Private placement	5,569,613	1,949,364	-	-	1,949,364
Warrant exercise	815,841	434,478	(22,457)	-	412,021
Share issue costs – cash	-	(99,790)	-	-	(99,790)
Share issue costs – warrants	-	(84,026)	84,026	-	-
Share-based payments - options	-	-	825,500	-	825,500
Debenture issue costs – shares	150,000	81,000	-	-	81,000
Debenture issue costs – warrants	-	-	663,390	-	663,390
Equity component of debentures	-	-	790,394	-	790,394
Shares issued upon debenture conversions	2,196,000	898,127	(80,134)	-	817,993
Loss for the year	-	-	-	(4,665,101)	(4,665,101)
Balance, June 30, 2019	37,384,430	\$ 17,075,475	\$ 3,225,330	\$ (16,246,194)	\$ 4,054,611

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Chemistree Technology Inc. (the “Company”) was incorporated in the Province of British Columbia on March 14, 2008, under the Business Corporations Act of British Columbia. The name change to Chemistree Technology Inc. became effective August 3, 2017. The Company’s registered and records office is located at Suite 810 - 609 Granville Street, Vancouver, British Columbia.

The Company is a Canadian investment company with investments in the United States cannabis sector through its wholly-owned subsidiaries Chemistree Washington Ltd., and CHM Desert LLC (Note 2), and American CHM Investments Inc. (Note 2). On July 20, 2018, it was announced that the Company had become an investment company on the Canadian Securities Exchange. The Company is focused on making investments or acquisitions in areas relating to the U.S. cannabis sector, focusing on providing turn-key solutions for the U.S. regulated cannabis industry, and branding, licensing and marketing strategies to existing participants. The Company’s corporate strategy is to acquire and develop vertically integrated U.S. cannabis assets, leveraging management’s decades of expertise in the cannabis industry and corporate finance to own and operate licensed cultivation, processing, distribution and retail facilities throughout the U.S.

On June 29, 2018, the Company completed the acquisition of Washington State-based equipment assets used in cannabis cultivation, production and distribution (Note 4). Through consulting and revenue services associated with these assets, the Company indirectly derives revenue from the adult-use cannabis industry in the United States in jurisdictions where local law permits such activities. Although a number of states in the United States have legalized medical and/or recreational use of cannabis, it remains illegal under United States federal laws. Accordingly, there are a number of risks associated with the Company’s operations and investments, even where the Company is not directly involved in the cultivation or sale of either recreational or medical cannabis. There is a risk that United States federal authorities may enforce federal law prohibiting the cultivation and sale of cannabis or laws relating to the proceeds thereof. Accordingly, the Company, and its investments in the cannabis sector, may be subjected to heightened scrutiny by applicable regulatory authorities, the Canadian Securities Exchange, or other governmental bodies.

The ability of the Company to continue to operate as a going concern is dependent on its ability to generate profitable operations and positive cash flows. To date, the Company has generated limited revenues from operations and will require additional funds to meet ongoing obligations and investment objectives. As a result, further losses are anticipated. As at June 30, 2019, the Company had working capital of \$8,311,037 (2018: \$2,378,554) and an accumulated deficit of \$16,246,194 (2018: \$11,581,093). These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company’s future capital requirements will depend on many factors, including the operating and capital costs of locating, researching, developing, and acquiring investments that comply with its investment strategy. The Company’s anticipated operating losses and increasing working capital requirements will require that it obtain additional capital to continue operations. The Company will depend almost exclusively on outside capital. Such outside capital may include the sale of additional shares. There can be no assurance that capital will be available as necessary to meet ongoing obligations and operating objectives or, if the capital is available, that it will be on terms acceptable to the Company. These conditions and uncertainties may cast significant doubt as to the Company’s ability to continue as a going concern. The issuances of additional equity securities by the Company may result in significant dilution to the equity interests of its current shareholders. Obtaining commercial loans, assuming those loans would be available, would increase the Company’s liabilities and future cash commitments.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. These consolidated financial statements are presented in Canadian dollars, unless otherwise noted, which is the functional currency of the Company.

Principles of consolidation

These consolidated financial statements include the financial statements of the Company and the following subsidiaries:

American CHM Investments Inc.	100%	Investment holding company
CHM Desert LLC	100% (indirect)	Investment holding company
Chemistree Washington Ltd.	100% (indirect)	Investment holding company

Chemistree Washington Ltd. ("Chemistree Washington"), was incorporated by the Company on October 17, 2017, to facilitate the Company's investment objectives in the Washington State cannabis sector. Effective July 17, 2018, the Company incorporated American CHM Investments Inc. ("American CHM"), under the laws of the State of Delaware. Effective July 18, 2018, American CHM incorporated CHM Desert LLC ("CHM Desert") as a wholly-owned subsidiary, under the laws of the State of California. All intercompany transactions, balances, revenues and expenses are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

The Company considers all highly liquid instruments, generally with a maturity of three months or less at the time of issuance, to be cash equivalents.

Change in Accounting Policies

Financial instruments

On July 1, 2018, the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard retrospectively. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities.

The following summarizes the significant changes in IFRS 9 compared to the current standard:

- IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. The change did not impact the carrying amounts of any of the Company's financial assets on the

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

transition date. Prior periods were not restated and no material changes resulted from adopting this new standard.

- The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had no impact on the carrying amounts of our financial assets on the transition date.

Critical accounting estimates and judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

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

Judgments:

The preparation of these consolidated financial statements requires management to make judgments regarding the going concern of the Company, as discussed in Note 1.

Estimates:

Share-based payments

The Company measures the cost of equity-settled transactions with employees and those providing similar services by reference to the fair value of the equity instruments at the date at which they were granted. Estimating the fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock options, volatility, and dividend yield.

Impairment and useful lives of long-lived assets

The Company assesses long-lived assets for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least annually. The assessment of any impairment is dependent upon estimates of recoverable amounts that take into account factors such as location and condition of the asset, economic and market conditions, the useful lives of assets, and their related salvage values. The estimated useful lives of equipment are reviewed by management and adjusted if necessary. To estimate equipment's useful life, management must use its past experience with the same or similar assets, review engineering estimates and industry practices for similar pieces of equipment.

Deferred income taxes

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. Where applicable tax laws and regulations are either unclear or

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

Basic and diluted loss per share

The Company presents basic loss per share 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. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Financial instruments

Financial assets:

Financial assets are classified at initial recognition as either: amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVTOCI"). The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

Fair value through profit or loss – Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in profit or loss in the period in which they arise.

Fair value through other comprehensive income ("FVTOCI") - Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Financial assets at amortized cost - A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Financial liabilities:

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss – This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities: This category consists of liabilities carried at amortized cost using the effective interest rate method.

The Company has classified its cash and cash equivalents and marketable securities as fair value through profit and loss. Accounts receivable and note receivable are classified as amortized cost. The Company's accounts payable and accrued liabilities, due to related parties, interest payable, loan payable, and notes payable are classified as other financial liabilities.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

Revenue Recognition

The Company recognizes revenue when it is earned and realizable based on the following criteria: persuasive evidence of an arrangement exists, services have been rendered, the price is fixed and determinable, and collectability is reasonably assured.

The Company has adopted the standards under IFRS 15, "Revenue from Contracts with a Customer". Revenues are recognized on a gross basis, when a service has been delivered, with the cost of obtaining the service being presented as cost of sales. When evaluating presentation of revenue, the Company looks at whether the transaction represents a principal or agency relationship. A party is considered a principal if:

- The entity has the primary responsibility for providing the services to the customer,
- The entity has latitude in establishing prices, either directly or indirectly,
- The entity bears the customer's credit risk on the receivable due from the customer.

The Company obtains revenue from providing consulting and rental services at \$US 20,000 per month to Sugarleaf Farm LLC (Note 4)

Property and Equipment

Property and Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to amortize the cost of the item, less its estimated residual value, using the diminishing balance method over its expected period of use by the Company. The Company's equipment will be depreciated at a rate of 20%. Estimated useful lives are reviewed by management and adjusted if necessary. Depreciation does not apply to real property.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to profit or loss during the period they are incurred.

Share Capital

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company, in addition to the proportionate amount of equity reserves originally created at the issuance of the stock options or warrants. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to common shares based on the fair value of a common share at the issuance date of the unit offering and any residual remaining is allocated to common share purchase warrants. All professional fees and commissions incurred directly with the issue of the Company's shares are charged directly to share capital as share issue costs. Warrants issued to agents in connection with a financing are recorded at fair value and charged to share capital as a share issue cost an offsetting entry to equity reserves within shareholders' equity.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

Foreign exchange

The functional and reporting currency of the Company and its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions denominated in other currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Carrying values of monetary assets and liabilities denominated in foreign currencies are adjusted at the statement of financial position date to reflect exchange rates prevailing at that date. Non-monetary assets and liabilities are translated at historical exchange rates. Gains and losses on translation are included in determining profit or loss for the year.

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 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.

Impairment of non-financial assets

At each financial position reporting date the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the year.

For the purposes of impairment testing, individual assets are allocated to cash-generating units. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Share-based payments

The fair value of stock options granted is recognized as share-based payment expense with a corresponding increase in equity reserves. An individual is classified as an employee when the individual

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Fair value is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest. In situations where equity instruments are issued to consultants and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received

Provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement or reclamation of equipment. The net present value of cost estimates is capitalized to the related assets along with a corresponding increase in the provision in the year incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of provisions could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the year.

New Accounting Standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. The following have not yet been adopted by the Company:

- As at July 1, 2019, the Company will adopt all of the requirements of IFRS 16 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information and continues to be reported under IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease.
- IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.
- The Company's leases consist of a commercial lease arrangement (Note 15). The company, on adoption of IFRS 16, will recognize a lease liability in relation to its commercial lease, which has previously been classified as an operating lease under the principles of IAS 17. In relation, under the principles of the new standard this lease is measured as the lease liability at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at July 1, 2019.
- The following table reconciles the Company's operating lease commitments at June 30, 2019 calculated over the remaining term of the lease on a straight-line basis to the lease liability to be recognized on adoption of IFRS 16 at July 1, 2019:

Lease commitment as at July 1, 2019	USD	300,960
Effect of discounting (10% rate)	USD	(39,714)
<u>Lease liability as of July 1, 2019</u>	<u>USD</u>	<u>261,246</u>

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

- The associated right-of-use asset will be measured at the amount equal to the lease liability on July 1, 2019. The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset.

4. PROPERTY AND EQUIPMENT

	Property \$	Equipment \$	Total \$
COST			
Balance, June 30, 2018	-	1,323,245	1,323,245
Additions	1,620,323	116,743	1,737,066
Balance, June 30, 2019	1,620,323	1,439,988	3,060,311
DEPRECIATION			
Balance, June 30, 2018 ⁽¹⁾	-	-	-
Depreciation	-	276,323	276,323
Balance, June 30, 2019	-	276,323	276,323
NET BOOK VALUE			
Balance, June 30, 2018	-	1,323,245	1,323,245
Balance, June 30, 2019	1,620,323	1,163,665	2,783,988

⁽¹⁾ No depreciation was taken during the year ended June 30, 2018, as the equipment was acquired on June 29, 2018.

Acquisition of Washington Assets

Pursuant to a definitive asset purchase agreement (the "Washington Acquisition") between Chemistree Washington Ltd. ("Chemistree Washington") and Elite Holdings Inc. ("Elite"), the Company acquired certain cannabis cultivation equipment (the "Washington Assets") from Elite. Consideration for the Washington Assets was US\$1,000,000 payable in cash. US\$800,000 was paid upon closing of the Washington Acquisition on June 29, 2018. The subsequent payment of \$200,000 was completed during fiscal 2019.

In addition to acquiring the Washington Assets, the Company entered into a Commercial Lease agreement subsequent to June 30, 2018, effective July 1, 2018, with the landlord of the facility in which the Washington Assets are situated. The Commercial Lease agreement is for an initial term expiring on June 30, 2022, with an option to extend to June 30, 2026. Rent is payable to the landlord in the amount of USD \$6,360 per month for each of July and August 2018, and USD \$8,360 per month from September 2018, and each month thereafter (Note 15).

Pursuant to a letter of intent dated April 24, 2018, between Chemistree Washington and Elite, Chemistree Washington will enter into agreements with a Strategic Partner, an arm's length party to, and unaffiliated with, Chemistree, whereby the Strategic Partner will sublease the facility, and license the Washington Assets, from Chemistree Washington, in order for the Strategic Partner to operate the "Sugarleaf" brand of retail cannabis products in Washington state. Entering into agreements with the Strategic Partner are subject to receipt of approval from the Washington State Liquor and Cannabis Board ("WSLCB"), and for the sale of the Washington State "Tier 3" Production and Processing License No. 423406 (the "Sugarleaf Licence") from Sugarleaf Farm LLC ("Sugarleaf"), to the Strategic Partner.

Until such time as WSLCB approves the transfer of the License to the Strategic Partner the Company derives revenue from the operation of the Washington Assets through a pre-existing sub-lease arrangement and consulting fees.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

Receivables

Trade and other receivables consist of the consulting fees, rental charges and advances towards working capital of Sugarleaf. As at June 30, 2019, approximately \$300,000 is overdue based on the original payment terms. Management has agreed to provide an extension for repayment, which has resulted in \$500,000 being classified as a long term receivable and \$245,714 remaining as current.

Acquisition of DHS Land

On August 7, 2018, through its wholly-owned California subsidiary, CHM Desert LLC, the Company purchased 9.55 acres of fee-simple, vacant land in the city of Desert Hot Springs, Riverside county, California. Consideration for the purchase was USD \$1,233,800. The land is held for development purposes.

5. NOTES PAYABLE

Effective July 17, 2017, the Company issued unsecured Promissory Notes (the "Notes") to arm's length parties, and a related party, for borrowings from those parties. The Notes mature on July 17, 2027, and bear interest at the Canadian prime rate plus 0.5% per annum, payable annually.

	Principal
	\$
Balance, June 30, 2017	-
Additions	345,923
Transfer from loan payable	76,036
Balance, June 30, 2018	421,959
Additions	22,000
Balance, June 30, 2019	443,959

As at June 30, 2019, accrued and unpaid interest on these Notes amounts to \$34,205 (2018 year-end \$ 14,707), which is presented as interest payable.

6. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions occurred in the normal course of business and have been recorded at the exchange amount; which is the fair value agreed to between the parties. Amounts due to related parties are unsecured, non-interest bearing and without specific terms of repayment.

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 executive and non-executive members of the Company's Board of Directors and Officers.

During the years ended June 30, 2019 and 2018, the Company entered into transactions with key management personnel and related parties as follows:

<u>Related party</u>	<u>Nature of transactions</u>
Pacific Equity Management Corp. ("PEMC")	Management fees for services provided by CEO, CFO, VP Corporate Development, VP Finance, Accountant, Secretary, Administrator and all support staff; includes rent and shared office expenses. Rent and shared office expenses commenced under a separate agreement on July 1, 2017.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

Contact Financial Corp. ("CFC")	Rent and shared office expenses as per original rental agreement terminated June 30, 2017. Investor relations and communication services commenced under separate agreement on July 10, 2018.
Black Label ("BL")	Expenses incurred by a company in which a Director is the principal shareholder.
Sheldon Aberman ("Aberman")	Expenses incurred by a Director that were reimbursed.
Karl Kottmeier ("Kottmeier")	Expenses incurred by a Director that were reimbursed.
Justin Chorbajian ("Chorbajian")	Note payable issued for funds advanced by a former Director.

The aggregate value of transactions involving key management personnel were as follows:

	2019	2018
Management fees ⁽¹⁾	\$ 320,000	\$ 240,000

⁽¹⁾ Management fees were paid to PEMC, a company controlled by two officers of the Company for CEO and CFO services and other management services. Pursuant to an amended Management Services Agreement, the Company is required to pay \$60,000 per month beginning May 2019 (2018: \$20,000 per month), and the agreement can be terminated by either party with six months' notice.

The aggregate value of transactions with other related parties were as follows:

	2019	2018
Rent (general and administrative) ⁽²⁾	\$ 30,000	\$ 30,000

⁽²⁾ For the period ended June 30, 2019, rent was paid to PEMC for office rent and other office services. The Company is required to pay \$2,500 per month to PEMC (2018: \$2,500 per month). The agreement with PEMC can be terminated by either party with six months' notice.

The aggregate value of transactions with other related parties were as follows:

	2019	2018
Marketing (general and administrative) ⁽³⁾	\$ 222,000	\$ -

⁽³⁾ For the period ended June 30, 2019, fees were paid to CFC for investor relations and communications services. The Company is required to pay \$6,000 per month to CFC (2018: \$nil per month). In addition, \$150,000 in fees were paid to CFC for promotional activities.

The aggregate value of transactions with other related parties were as follows:

	2019	2018
Share-based compensation	\$ 618,500	\$ -

	2019	2018
Equipment ⁽⁴⁾	\$ 116,743	\$ -
Consulting ⁽⁴⁾	\$ 14,623	\$ -
Travel ⁽⁴⁾	\$ 22,765	\$ -

⁽⁴⁾ For the period ended June 30, 2019, expenditures were paid or accrued to BL for various categories.

Chemistree Technology Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2019 and 2018
(in Canadian dollars)

The aggregate value of transactions with other related parties were as follows:

	2019	2018
Consulting and reimbursements ⁽⁵⁾	\$ 210,387	\$ -

⁽⁵⁾ For the period ended June 30, 2019, expenditures were reimbursed to Aberman for third party consulting services.

Due to related parties include the following amounts:

	2019	2018
PEMC	\$ 695	\$ 695
CFC	1,750	1,750
Kottmeier	-	6,963
	<u>\$ 2,445</u>	<u>\$ 9,408</u>

Included in the notes payable (Note 5), is \$78,431 principal (2018: \$78,431), and \$6,305 in accrued interest owed to Chorbajian.

7. SHARE CAPITAL AND EQUITY RESERVES

a) Authorized: Unlimited common shares without par value

b) Issued common shares

Year ended June 30, 2019:

Effective July 11, 2018, Chemistree Technology Inc. closed the final tranche of the non-brokered private placement as announced May 11, 2018, and as amended June 22, 2018, and July 10, 2018, for gross proceeds of \$1,949,364.

The July 11, 2018, final tranche comprised 5,569,613 units, issued at \$0.35 per unit. Each unit consisted of one common share and one common share purchase warrant; each warrant entitles the holder to acquire one additional common share for \$0.50 for a period of 24 months after closing of the private placement.

The Company also issued 257,748 finders' warrants in connection with the final tranche, and the warrants will have the same terms as the common share purchase warrants included in the placement units. The Company incurred share issuance costs of \$99,790 in cash, and \$84,026 representing the fair value of finders' warrants, respectively, in connection with the placement.

Effective March 29, 2019, in connection with a convertible debenture offering (the "Offering") (Note 8), the Company paid the Agent a corporate finance fee of \$156,000, of which \$75,000 was paid in cash and \$81,000 was satisfied through the issuance of 150,000 shares.

The Company also issued 1,474,200 warrants (Note 8) in connection with the Offering. The Company incurred debenture issuance costs of \$663,390 representing the fair value of finders' warrants in connection with the placement. Each warrant entitles the holder to acquire one common share for \$0.50 for a period of 36 months after closing the Offering.

The Company issued 815,841 common shares pursuant to the exercise of 815,841 warrants at an average price of \$0.51 per share for total proceeds of \$412,021. In addition, a reallocation of \$22,457 from equity reserves to share capital was recorded on the exercise of these warrants. This amount constitutes the value of the warrants recorded at the original grant date.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

The Company issued 2,196,000 common shares pursuant to the conversion of convertible debentures. Upon this conversion, \$788,356 was reclassified from convertible debentures to share capital, \$29,637 from deferred income tax liability and \$80,134 was reclassified from equity reserves to share capital

Year ended June 30, 2018:

During the year ended June 30, 2018, the Company closed non-brokered private placements aggregating gross proceeds of \$4,107,520, through the issuance of 13,504,571 common shares and 7,752,235 warrants, which included 438,464 warrants issued to finders for compensatory purposes. The Company incurred share issuance costs of \$173,854 in cash, and \$144,693 representing the fair value of finders' warrants, respectively, in connection with the placements.

c) Warrants:

	Warrants	Weighted Average Exercise Price \$
Balance, June 30, 2017	-	-
Issued – attached to private placement units	7,313,771	0.50
Issued – finder's fees	438,464	0.50
Balance, June 30, 2018	7,752,235	0.50
Exercised	(815,841)	0.51
Issued – attached to private placement units	5,569,613	0.50
Issued – finder's fees	257,748	0.50
Issued – attached to convertible debenture (Note 8)	21,660,000	0.70
Issued – Agent's warrants (Note 8)	1,320,200	0.50
Issued – Fiscal advisory warrants (Note 8)	14,000	0.50
Issued – finder's warrants (Note 8)	140,000	0.50
Balance, June 30, 2019	35,897,955	0.62

As at June 30, 2019, the following warrants were outstanding and exercisable:

Number	Exercise Price	Expiry Date	Remaining Contractual Life (in years)
7,409,323 ⁽¹⁾	\$0.50	June 25, 2020	0.99
5,374,932 ⁽¹⁾	\$0.50	July 11, 2020	1.03
21,639,500	\$0.70	March 29, 2022	2.75
1,474,200	\$0.50	March 29, 2022	2.75

⁽¹⁾ The warrants are subject to an acceleration provision, whereby, if the closing market price of the common shares of the Company on the Canadian Securities Exchange is greater than \$0.60 per common share for a period of 10 consecutive trading days, then the Company may deliver a notice to the holders of warrants notifying the holders that the warrants must be exercised within 30 calendar days from the date of the acceleration notice, otherwise the warrants after 30 days of such notice.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

The fair value of the warrants issued as finders' fees was estimated on the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019	2018
Risk-free interest rate	1.61%	1.98%
Expected life	2.85 years	2 years
Expected volatility	158.61%	228.27%
Expected dividend yield	Nil	Nil
Weighted average fair value per option	\$0.43	\$0.30

d) Options:

The Company has a Stock Option Plan (the "Plan") that allows it to give to eligible persons, as additional compensation, the opportunity to participate in the success of the Company by granting to such individuals stock options, exercisable over periods of up to five years, as determined by the board of directors of the Company, to buy shares of the Company at a price equal to the market price prevailing on the date the stock option is granted less applicable discount, if any, permitted by the policies of the Canadian Securities Exchange and approved by the Board. The maximum number of Shares which may be issuable pursuant to options granted under the Plan shall be that number equal to 10% of the Company's issued share capital from time to time.

	Options	Weighted Average Exercise Price \$
Balance, June 30, 2017	950,000	0.13
Granted	150,000	0.41
Balance, June 30, 2018	1,100,000	0.15
Granted	1,550,000	0.57
Balance, June 30, 2019	2,650,000	0.40

As at June 30, 2019, the following stock options were outstanding and exercisable:

Number	Exercise Price	Expiry Date	Remaining Contractual Life (in years)
50,000	\$0.36	April 8, 2021	1.78
900,000	\$0.10	June 7, 2022	2.94
150,000	\$0.41	June 22, 2023	3.98
250,000	\$0.41	July 11, 2023	4.03
1,300,000	\$0.60	April 5, 2024	4.77

These options entitle the holder thereof the right to acquire one common share for each option held. The weighted average remaining life of the outstanding stock options is 3.98 years.

During the period ended June 30, 2019, the Company granted stock options to acquire 1,550,000 (2018: 150,000) common shares with a fair value of \$825,500 (2018: \$58,500). The options granted during the period vested on the grant date. The fair value of each share was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

	2019	2018
Risk-free interest rate	1.65%	1.98%
Expected life	5 years	5 years
Expected volatility	179.32%	169.56%
Expected dividend yield	Nil	Nil
Weighted average fair value	\$0.53	\$0.39

8. CONVERTIBLE DEBENTURE

On March 29, 2019, the Company completed a short form prospectus offering in each of the provinces of Canada, other than Québec (the “Brokered Offering”) and a concurrent private placement (the “Concurrent Private Placement”) of 10% unsecured debenture units (the “Debenture Units”) of the Company, for total gross proceeds of \$10,830,000.

Pursuant to the Brokered Offering, which included the exercise of the over-allotment option in full, the Company issued an aggregate of 9,430 Debenture Units at a price of \$1,000 per Debenture Unit (the “Offering Price”) for aggregate gross proceeds of \$9,430,000. Each Debenture Unit consists of (i) one 10% unsecured convertible debenture of the Company in the principal amount of \$1,000 (each, a “Debenture”) with interest payable semi-annually in arrears on June 30 and December 31 of each year, commencing June 30, 2019 and maturing March 29, 2022 (such date, the “Maturity Date”), and (ii) 2,000 common share purchase warrants of the Company (each, a “Warrant”), each exercisable until the Maturity Date to purchase one common share of the Company (each, a “Warrant Share”) at an exercise price of \$0.70 per Warrant Share, subject to adjustment in certain events.

Concurrent with the Brokered Offering, the Company issued an aggregate of 1,400 Debenture Units at the Offering Price, for aggregate gross proceeds of \$1,400,000, on a private placement basis. All securities issued in connection with the Concurrent Private Placement are subject to a prescribed four month plus one day hold period expiring July 30, 2019.

The Brokered Offering was conducted on a “best efforts” basis pursuant to an agency agreement (the “Agency Agreement”) between the Company and Canaccord Genuity Corp. (the “Agent”) dated March 22, 2019, as amended.

In connection with the Brokered Offering, the Company: (i) paid the Agent a cash commission equal to 7.0% of the gross proceeds of the Offering; (ii) paid the Agent a corporate finance fee of \$156,000, of which \$75,000 was paid in cash and \$81,000 was satisfied through the issuance of 150,000 Common Shares; (iii) issued the Agent non-transferable broker warrants (the “Broker Warrants”) to purchase 1,320,200 units of the Company (the “Broker Units”) at an exercise price of \$0.50 per Broker Unit; and (iv) paid the Agent a fiscal advisory fee comprised of \$14,000 in cash and the issuance of 14,000 Broker Warrants.

Each Broker Unit consists of one common share of the Company (each, a “Broker Unit Share”) and one-half of one common share purchase warrant of the Company (each whole common share purchase warrant, a “Broker Unit Warrant”). Each Broker Unit Warrant will be exercisable to acquire one common share of the Company (each, a “Broker Warrant Share”) at any time up until the Maturity Date at an exercise price of \$0.70 per Broker Warrant Share, subject to adjustment in certain events.

In connection with the Concurrent Private Placement, the Company: (i) paid certain finders (each, a “Finder”) a cash commission equal to 7.0% of the gross proceeds; and (ii) issued to such Finders an aggregate of 140,000 Broker Warrants.

The Company recorded issuance costs of \$2,027,206 associated with the professional fees and financing costs incurred. The net proceeds were allocated first to the fair value of the convertible note, with the remaining \$790,394 and \$292,322 allocated to the equity component and deferred income tax liability, respectively. The fair value was determined by using an interest rate approximating the Company’s market

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

rate of interest for a similar debt instrument. The liability component of the debt is accreted to its face value over the term of the convertible debenture.

	Liability Component		Deferred income tax liability Component	Equity Component
	Face Value	Carrying Value		
Balance as at June 30, 2018	-	-	-	-
issued	10,830,000	7,720,078	292,322	790,394
converted	(1,098,000)	(788,356)	(29,637)	(80,134)
accretion	-	164,733	-	-
recovered	-	-	(262,685)	-
Balance as at June 30, 2019	\$ 9,732,000	\$ 7,096,455	\$ -	\$ 710,260

Details of the convertible debenture classification are as follows:

	June 30, 2019	
Proceeds from the issue of convertible debentures	\$	10,830,000
Transaction costs		(2,027,206)
Equity component		(790,394)
Deferred income tax liability		(292,322)
Conversions		(788,356)
Accretion		164,733
Ending balance	\$	7,096,455
Current portion		-
Non-current portion	\$	7,096,455

During the year ended June 30, 2019, the Company incurred \$257,724 interest expense on the Convertible Debentures.

9. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to pursue and complete the identification and evaluation of assets, properties or businesses with a view to acquisition or participation in a qualifying transaction, to maintain financial strength and to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain credit worthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital is comprised of the Company's shareholders' equity. There were no changes made to the Company's capital management approach during the years presented.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or adjust the amount of cash and cash equivalents.

The Company's investment policy is to invest its cash in investment instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

10. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENT AND RISK

a) Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, marketable securities, note receivable, accounts payable and accrued liabilities, due to related parties, interest payable, notes payable, and convertible debenture.

b) Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values, as follows:

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

The fair value of cash and cash equivalents and marketable securities are determined based on Level 1 inputs which consist of quoted prices in active markets for identical assets. The carrying values of accounts receivable, note receivable, accounts payable and accrued liabilities, due to related parties, interest payable, notes payable, and convertible debenture all approximate their fair values.

c) Financial Risks

(i) Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's maximum exposure to credit risk is \$8,718,972, consisting of cash and cash equivalents, accounts receivable, taxes receivable and note receivable. The Company limits its exposure to credit loss for cash and cash equivalents by placing such instruments with high credit quality financial institutions. The values of these instruments may exceed amounts insured by an agency of the Government of Canada. In management's opinion, the Company's credit risk related to these instruments, is low. Risk exposure to accounts receivable over 90-days past due are considered moderate in the opinion of management. Risk exposure to note receivable is considered moderate in management's opinion since the note is secured by assets of sufficient recoverable value to offset the risk.

(ii) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient financial resources to meet liabilities when due. As at June 30, 2019, the Company had working capital of \$8,311,037. Except for notes payable and convertible debentures, all of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. As at June 30, 2019, the Company has sufficient working capital to discharge its existing financial obligations, refer to Note 1 for detail regarding going concern.

(iii) Interest Rate Risk

The Company is subject to interest rate risk as its cash and cash equivalents, and notes payable bear interest at variable rates. The impact of a 1% change in interest rates would have an insignificant impact on the Company's profit or loss.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

(iv) Foreign Currency Risk

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Amounts subject to currency risk are primarily cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities denominated in United States dollars. A 10% change in foreign exchange rates is expected to have a US\$ 134,000 impact on the Company's profit or loss.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the period ended June 30, 2019, non-cash investing and financing activities are as follows:

- Issued warrants with a fair value of \$663,390 as debenture issue costs (Note 7.b)
- Recorded equity reserves of \$792,394 and deferred income tax liability of \$292,322 on initial recognition of convertible debentures (Note 8)
- Issued warrants with a fair value of \$84,026 as share issue costs (Note 7.b)
- Issued shares with a value of \$81,000 as a corporate finance fee on the debentures (Note 8)
- Transferred \$22,457 from reserves to share capital on exercise of warrants
- Reclassified \$898,127 into share capital from convertible debentures, deferred income tax liability, and equity reserves upon conversion of debentures (Note 8)
- Reclassified \$500,000 of trade and other receivables from current to long term (Note 4)

During the year ended June 30, 2018, the Company:

- Reclassified the loan payable to notes payable in the amount of \$76,036;
- Included equipment of \$263,360 within accounts payable and accrued liabilities.

12. SEGMENTED INFORMATION

The Company operates in one reportable segment, being the business investing in the United States cannabis sector. As at June 30, 2019, all the Company's non-current assets were located in the United States and revenue was earned from activity in the United States. As at June 30, 2018, the Company's assets and other income were located/generated in the United States and Canada.

13. MARKETABLE SECURITIES

Marketable securities consist of common shares of a public company that are measured at fair value, which is determined using quoted closing prices of the shares on the exchange where they are listed, at the end of each reporting period.

The Company's marketable securities transactions are as follows:

	Marketable securities	
Fair value, June 30, 2018	\$	-
Purchases		245,000
Proceeds from sales		(242,275)
Gains realized on sale		100,525
Unrealized gains (losses)		70,800
Fair value, June 30, 2019	\$	174,050

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

14. NOTE RECEIVABLE

On November 27, 2018, the Company announced that it had entered into a strategic collaboration (“Arcata”) with a Humboldt County-based cannabis processing company (“Processor”) located in Arcata, California. Pursuant to the Collaboration Agreement, the Company has agreed to loan the Processor US\$450,000 (the “Arcata Loan”) by way of a secured Note, for the purposes of the expanding the Processor’s business, including to, among other things, purchase additional equipment and complete tenant improvements to the Processor’s facility. The Note accrues interest at an annual rate of 6% and matures on March 14, 2020. The Note is secured by 50% of the equity of the Processor.

	Note Receivable \$
Balance, June 30, 2018	-
Additions	588,884
Accrued interest	21,177
Balance, June 30, 2019	610,061

15. COMMITMENTS

- a) Effective July 1, 2018, the Company entered into a Commercial Lease agreement with the landlord of the facility where the Washington Assets are situated. The Commercial Lease agreement is for an initial term expiring on June 30, 2022, with an option to extend to June 30, 2026.

The Company’s commitment for basic rent amounts payable are as follows:

- 2020: US\$100,320
 - 2021: US\$100,320
 - 2022: US\$100,320
- US\$300,960

- b) Effective July 10, 2018, the Company entered into consulting agreements with Contact Financial Corp. (“CFC”) and Adelaide Capital Markets Inc. (“Adelaide”) to provide investor relations and communication services.

The Company’s commitment for consulting agreements are as follows:

- CFC: \$6,000 per month
- Adelaide: \$4,000 per month

- c) The Company and the Processor (Note 14) intend to negotiate and enter into an additional line of credit for purposes of the Processor’s working capital, however no definitive documentation with regards thereto has been entered into and the Company cannot provide any assurance as to the completion, timing or terms thereof. In consideration for benefits received by the Company under the Collaboration Agreement, the Company has agreed to issue 100,000 common shares to the Processor’s principal, subject to receipt of certain licensing and approvals by the Processor.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

16. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2019	2018
Loss for the year	\$ (4,665,101)	(738,475)
Computed income taxes (recovery)	\$ (1,260,000)	(192,000)
Change in statutory rate	242,000	(74,000)
Permanent differences	150,000	18,000
Share issue costs	(27,000)	(45,000)
Change in unrecognized deductible temporary	632,000	293,000
Total income tax expense (recovery)	\$ (263,000)	-
Current income tax	-	-
Deferred tax recovery	(263,000)	-

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2019	2018
Deferred tax assets (liabilities)		
Exploration and evaluation assets	\$ 758,000	758,000
Property and equipment	58,000	-
Share issue costs	347,000	39,000
Marketable securities	(10,000)	-
Debt with accretion	(712,000)	-
Non-capital losses available for future period	2,248,000	1,260,000
	\$ 2,689,000	2,057,000
Unrecognized deferred tax assets	(2,689,000)	(2,057,000)
Net deferred tax assets	-	-

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2019	Expiry Date Range	2018	Expiry Date Range
Temporary Differences				
Exploration and evaluation assets	\$ 2,809,000	No expiry date	\$ 2,809,000	No expiry date
Property and equipment	\$ 276,000	No expiry date	-	No expiry date
Share issue costs	1,286,000	2040 to 2043	145,000	2039 to 2042
Non-capital losses available for future periods	5,729,000		4,666,000	
Canada	\$ 5,244,000	2029 to 2039	\$ 4,666,000	2029 to 2038
USA	\$ 485,000	No expiry date	-	No expiry date

Tax attributes are subject to review, and potential adjustment, by tax authorities.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

17. EVENTS AFTER THE REPORTING PERIOD

- a) Options to purchase 150,000 shares at \$0.10; and 100,000 shares at \$0.60 were terminated.
- b) 130 convertible debentures, representing \$130,000 in debt obligation of the Company were converted into 260,000 common shares.