



Chemistree Technology Inc.

**Condensed Interim Consolidated Financial Statements
(Unaudited)
(Expressed in Canadian Dollars)**

For the three months ended September 30, 2019 and 2018

NOTICE OF NO AUDIT OR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Chemistree Technology Inc.

(in Canadian Dollars)

Condensed Interim Consolidated Statement of Financial Position

As at	September 30, 2019	June 30, 2019
ASSETS		
Current		
Cash and cash equivalents	\$ 6,102,181	\$ 7,286,516
Trade and other receivables (Note 4)	383,952	245,714
Taxes receivable	54,794	76,681
Note receivable (Note 14)	624,190	610,061
Prepays and deposits	73,173	67,825
Marketable Securities (Note 13)	37,050	174,050
	7,275,340	8,460,847
Non-current assets		
Investments (Note 16)	280,257	-
Property and equipment (Note 4)	2,725,805	2,783,988
Trade and other receivables (Note 4)	944,486	500,000
	\$ 11,225,888	\$ 11,744,835
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 416,621	\$ 113,160
Due to related parties (Note 6)	2,445	2,445
Interest payable (Note 5)	39,233	34,205
	458,299	149,810
Convertible debentures (Note 8)	7,168,494	7,096,455
Notes payable (Note 5)	443,959	443,959
	8,070,752	7,690,224
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	17,180,306	17,075,475
Equity reserves (Notes 7)	3,215,842	3,225,330
Deficit	(17,241,012)	(16,246,194)
	3,155,136	4,054,611
	\$ 11,225,888	\$ 11,744,835

Nature and continuance of operations (Note 1)

Commitment (Note 15)

Events after the reporting period (Note 17)

Approved by the board on November 28, 2019:

Signed: "Karl Kottmeier"
Director

Signed: "Douglas Ford"
Director

Chemistree Technology Inc.

(in Canadian Dollars)

Condensed Interim Consolidated Statement of Comprehensive Loss

	Three months ended September 30,	
	2019	2018
Revenue (Note 3)	\$ 79,201	\$ 78,432
Cost of sales	(68,017)	69,216
Gross margin	\$ 11,184	\$ 9,216
Expenses		
Business development	-	1,772
Depreciation	58,183	66,162
Consulting	41,020	26,598
Accretion and finance costs (Note 8)	411,053	-
General and administrative (Note 6)	122,241	144,398
Insurance	2,912	5,205
Interest expense	5,028	4,556
Management fees (Note 6)	274,514	60,000
Professional fees	22,734	124,928
Share-based payments (Note 7)	-	97,500
Transfer agent and regulatory fees	13,739	23,553
Travel	1,476	75
Total expenses	(952,900)	(554,747)
Foreign exchange gain (loss)	17,452	(12,117)
Interest income	22,721	3,794
Gain on sale of Marketable Securities (Note 13)	5,519	-
Other income	1,456	-
Adjustment for change in fair value of Marketable Securities (Note 13)	(100,250)	-
Loss and comprehensive loss	\$ (994,818)	\$ (553,854)
Basic and diluted loss per share	\$ (0.03)	\$ (0.02)
Weighted average number of shares outstanding - basic and diluted	37,566,604	33,556,657

Chemistree Technology Inc.

(in Canadian Dollars)

Condensed Interim Consolidated Statement of Cash Flows

For the three months ended September 30,	2019	2018
OPERATING ACTIVITIES		
Loss for the period	\$ (994,818)	\$ (553,854)
Items not affecting cash:		
Depreciation	58,183	66,162
Accrual of interest receivable	(8,983)	-
Accrual of interest payable	5,028	-
Share-based payments	-	97,500
Fair value adjustment for marketable securities	100,250	-
Accretion of convertible debentures	167,382	-
Gain on sale of marketable securities	(5,519)	-
Foreign exchange	(5,146)	-
Changes in non-cash working capital items:		
Receivables and prepaids	(101,470)	(220,189)
Accounts payable and accrued liabilities, and due to related parties	303,461	43,025
Cash used in operating activities	(481,632)	(567,356)
INVESTING ACTIVITIES		
Property and equipment purchases	-	(1,752,003)
Investment	(280,257)	(245,000)
Marketable Securities purchases	-	-
Proceeds from sale of Marketable Securities	42,269	-
Note receivable	(464,715)	-
Cash used in investing activities	(702,703)	(1,997,003)
FINANCING ACTIVITIES		
Common shares issued for cash	-	1,949,364
Share issue costs	-	(99,790)
Proceeds from notes payable	-	10,000
Proceeds from debentures, net of transaction costs	-	-
Cash provided by financing activities	-	1,859,574
Change in cash and cash equivalents during the period	(1,184,335)	(704,785)
Cash and cash equivalents, beginning of period	7,286,516	2,662,002
Cash and cash equivalents, end of period	\$ 6,102,181	\$ 1,957,217
Cash paid for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -
Cash and cash equivalents comprises:	2019	2018
Cash	\$ 1,102,181	\$ 1,952,217
Cash equivalents	5,000,000	5,000
	\$ 6,102,181	\$ 1,957,217

Supplemental disclosure with respect to cash flows (Note 11)

Chemistree Technology Inc.

(in Canadian Dollars)

Condensed Interim Consolidated Statement of Changes in Equity For the three months ended September 30,

	Number of shares	Share capital	Equity reserves	Deficit	Total
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
Share issue costs – cash	-	(99,790)	-	-	(99,790)
Share issue costs – warrants	-	(84,026)	84,026	-	-
Share-based payments - options	-	-	97,500	-	97,500
Loss for the period	-	-	-	(553,854)	(553,854)
Balance, September 30, 2018	34,222,589	\$ 15,661,870	\$ 1,146,137	\$ (12,134,947)	\$ 4,673,060
Balance, June 30, 2019	37,384,430	\$ 17,075,475	\$ 3,225,330	\$ (16,246,194)	\$ 4,054,611
Shares issued upon debenture conversions	260,000	104,831	(9,488)	-	95,343
Loss for the period	-	-	-	(994,818)	(994,818)
Balance, September 30, 2019	37,644,430	\$ 17,170,818	\$ 3,225,330	\$ (17,241,012)	\$ 3,155,136

Chemistree Technology Inc.

Notes to the Condensed interim consolidated financial statements

For the three months ended September 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 September 30, 2019, the Company had working capital of \$6,817,041 (June 30, 2019 year-end: \$8,311,037) and an accumulated deficit of \$17,241,012 (June 30, 2019 year-end: \$16,246,194). These condensed interim 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.

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(in Canadian dollars)

2. BASIS OF PREPARATION

Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). The financial statements follow the same accounting policies and methods of application as our most recent annual financial statements and do not include all of the information required for full annual financial statements. Accordingly, they should be read in conjunction with our IFRS financial statements for the fiscal year ended June 30, 2019. The accounting policies applied in these unaudited condensed interim consolidated financial statements are based on International Financial Reporting Standards (“IFRS”) issued and outstanding as of November 28, 2019., the date the Board of Directors approved these unaudited condensed interim consolidated financial statements and they are consistent with those disclosed in the annual financial statements.

These financial statements were approved for issue by the Board of Directors on November 28, 2019.

Basis of Measurement

These condensed interim 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 condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. These condensed interim consolidated financial statements are presented in Canadian dollars, unless otherwise noted, which is the functional currency of the Company.

Principles of consolidation

These condensed interim 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

These interim financial statements have been prepared using the same accounting policies and methods of computation as those used in the preparation of the audited consolidated financial statements for the year ended June 30, 2019.

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.

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(in Canadian dollars)

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 condensed interim consolidated financial statements are discussed below:

Judgments:

The preparation of these condensed interim 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 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

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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.

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.

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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 the operator of the Washington Assets (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.

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.

- As at July 1, 2019, the Company adopted 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

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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. The company, on adoption of IFRS 16, recognized a lease liability in relation to its commercial lease, which had 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 associated right-of-use asset has been 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, 2019	1,620,323	1,439,988	3,060,311
Additions	-	-	-
Balance, September 30, 2019	1,620,323	1,439,988	3,060,311
DEPRECIATION			
Balance, June 30, 2019	-	276,323	276,323
Depreciation	-	58,183	58,183
Balance, September 30, 2019	-	334,506	334,506
NET BOOK VALUE			
Balance, June 30, 2019	1,620,323	1,163,665	2,783,988
Balance, September 30, 2019	1,620,323	1,105,482	2,725,805

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).

Following the August 6, 2019 receipt of approval from the Washington State Liquor and Cannabis Board ("WSLCB"), Chemistree Washington entered into agreements with a Strategic Partner, which is an arm's length party to and unaffiliated with Chemistree, whereby the Strategic Partner subleases and licensed the Washington Assets from Chemistree Washington, in order for the Strategic Partner to operate the "Sugarleaf" brand of retail cannabis products in Washington state. The Strategic Partner operates under the Washington State "Tier 3" Production and Processing License No. 423406 (the "Sugarleaf Licence")

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acquired from Sugarleaf Farm LLC (“Sugarleaf”), along with any and all related brands, trademarks, websites, URLs, packaging, goods in process, and social media accounts.

The Company derives revenue from the operation of the Washington Assets through a sub-lease arrangement, consulting fees and the finance of improvements to the facilities.

Receivables

Trade and other receivables consist of the consulting fees, rental charges and advances towards improvements of the Washington Assets. As at September 30, 2019, approximately \$855,320 (June 30, 2019 year-end: \$300,000) is overdue based on the original payment terms. Management has agreed to provide an extension for repayment, which has resulted in \$471,368 being classified as a long term receivable and \$383,952 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, 2018	421,959
Additions	22,000
Balance, June 30, 2019	443,959
Additions	-
Balance, September 30, 2019	443,959

As at September 30, 2019, accrued and unpaid interest on these Notes amounts to \$39,233 (June 30, 2019 year-end \$34,205), 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 periods ended September 30, 2019 and 2018, the Company entered into transactions with key management personnel and related parties as follows:

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Related party	Nature of transactions
Pacific Equity Management Corp. ("PEMC")	Management fees for services provided by CEO, CFO, VP Corporate Development, 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.
Contact Financial Corp. ("CFC")	Investor relations and communication services commenced on July 10, 2018.
Sheldon Aberman ("Aberman")	Consulting services provided by an Officer and Director.
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⁾	\$ 180,000	\$ 60,000

⁽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⁾	\$ 7,500	\$ 7,500

⁽²⁾ For the period ended September 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⁾	\$ 18,000	\$ 68,000

⁽³⁾ For the period ended September 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: \$6,000 per month). In addition, \$nil (2018: \$50,000) in fees were paid to CFC for promotional activities.

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

	2019	2018
Consulting ⁽⁴⁾	\$ 94,514	\$ -

⁽⁴⁾ For the period ended September 30, 2019, expenditures were reimbursed to Aberman for third party consulting services.

Due to related parties include the following amounts:

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	2019	2018
PEMC	\$ 695	\$ 695
CFC	1,750	1,750
	<u>\$ 2,445</u>	<u>\$ 2,445</u>

Included in the notes payable (Note 5), is \$78,431 principal (2018: \$78,431), and \$7,184 in accrued interest owed to Chorbajian.

7. SHARE CAPITAL AND EQUITY RESERVES

a) Authorized: Unlimited common shares without par value

b) Issued common shares

Three months ended September 30, 2019:

The Company issued 260,000 common shares pursuant to the conversion of convertible debentures. Upon this conversion, \$95,343 was reclassified from convertible debentures to share capital.

Year ended June 30, 2019:

Effective July 11, 2018, the Company 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.

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

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c) Warrants:

	Warrants	Weighted Average Exercise Price \$
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 and September 30, 2019	35,897,955	0.62

As at September 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	0.74
5,374,932 ⁽¹⁾	\$0.50	July 11, 2020	0.78
21,639,500	\$0.70	March 29, 2022	2.50
1,474,200	\$0.50	March 29, 2022	2.50

⁽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.

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, 2018	1,100,000	0.15
Granted	1,550,000	0.57
Balance, June 30, 2019	2,650,000	0.40
Cancelled	(250,000)	0.30

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Balance, June 30, 2019	2,400,000	0.41
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As at September 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	1.52
750,000	\$0.10	June 7, 2022	2.69
150,000	\$0.41	June 22, 2023	3.73
250,000	\$0.41	July 11, 2023	3.78
1,200,000	\$0.60	April 5, 2024	4.52

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 3.76 years.

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

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\$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 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
converted	(130,000)	(95,343)	(3,509)	(9,488)
accretion	-	167,382	-	-
recovered	-	-	3,509	-
Balance as at Sept. 30, 2019	\$ 9,602,000	\$ 7,168,494	\$ -	\$ 700,772

Details of the convertible debenture classification are as follows:

	Sept. 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	(883,699)
Accretion	332,115
Ending balance	\$ 7,168,494
Current portion	-
Non-current portion	\$ 7,168,494

During the period ended September 30, 2019, the Company incurred \$243,671 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.

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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.

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 \$7,165,117, 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

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resources to meet liabilities when due. As at September 30, 2019, the Company had working capital of \$6,817,041. 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 September 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.

(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 September 30, 2019, the Company:

- Reclassified the loan receivable to trade and other receivable in the amount of \$944,486

During the period ended September 30, 2018, non-cash investing and financing activities are as follows:

- Included equipment of \$131,680 within accounts payable and accrued liabilities
- Issued warrants with a fair value of \$84,026 as share issue costs (Note 7.b)

12. SEGMENTED INFORMATION

The Company operates in one reportable segment, being the business investing in the United States cannabis sector. As at September 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 September 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, 2019	\$	174,050
Proceeds from sales		(42,269)
Gains realized on sale		5,519
Unrealized gains (losses)		(100,250)
Fair value, Sept. 30, 2019	\$	37,050

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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	<u>21,177</u>
Balance, June 30, 2019	610,061
Accrued interest	8,983
FX translation	<u>5,146</u>
Balance, Sept. 30, 2019	624,190

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\$86,400
 - 2021: US\$100,320
 - 2022: US\$100,320
- US\$287,040

- 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 Adelaide agreement was suspended as at September 30, 2019.

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

- CFC: \$6,000 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.

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16. INVESTMENTS

During the period, the Company completed the acquisition of an interest in Applied Cannabis Sciences of New Jersey ("ACS"), a New Jersey-based applicant for a medical, vertically integrated cannabis license. The investment is a 10% Preferred Membership Interest in ACS, a New Jersey limited liability company and is represented by ownership of ten Class A shares of ACS. ACS is a private company. The investment is carried at FVTPL, and absent any other information being available is measured at cost.

17. EVENTS AFTER THE REPORTING PERIOD

On October 7, 2019, the Company announced that the proposed investment into PCCBD of Phoenix, Ariz., had been terminated.