



**Chemistree Technology Inc.**

**Consolidated Financial Statements**

**For the years ended June 30, 2020 and 2019**

## 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, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity (deficiency) 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, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audit 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 audit 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 \$3,315,694 and an accumulated deficit of \$21,699,646. 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 15, 2020

# Chemistree Technology Inc.

(in Canadian Dollars)

## Consolidated Statements of Financial Position

As at June 30,	2020	2019
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 3,247,533	\$ 7,286,516
Trade receivables (Note 4)	165,983	245,714
Taxes receivable	71,716	76,681
Note receivable (Note 15)	-	610,061
Prepays and deposits	34,281	67,825
Net investment in sublease (Note 12)	142,481	-
Marketable securities (Note 14)	-	174,050
	<b>3,661,994</b>	<b>8,460,847</b>
<b>Non-current assets</b>		
Investment (Note 18)	280,257	-
Property and equipment (Note 4)	2,830,948	2,783,988
Note receivable (Note 15)	523,415	500,000
Net investment in sublease (Note 12)	156,729	-
	<b>\$ 7,453,343</b>	<b>\$ 11,744,835</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 139,134	\$ 113,160
Due to related parties (Note 6)	695	2,445
Lease liability (Note 12)	154,094	-
Interest payable (Note 5)	52,377	34,205
	<b>346,300</b>	<b>149,810</b>
<b>Convertible debentures</b> (Note 8)	<b>7,739,770</b>	<b>7,096,455</b>
<b>Lease liability</b> (Note 12)	<b>141,273</b>	<b>-</b>
<b>Notes payable</b> (Note 5)	<b>443,959</b>	<b>443,959</b>
	<b>8,671,302</b>	<b>7,690,224</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital (Note 7)	17,207,845	17,075,475
Equity reserves (Notes 7)	3,273,842	3,225,330
Deficit	(21,699,646)	(16,246,194)
	<b>(1,217,959)</b>	<b>4,054,611</b>
	<b>\$ 7,453,343</b>	<b>\$ 11,744,835</b>

Nature and continuance of operations (Note 1)

Commitments (Note 16)

Covid-19 pandemic (Note 19)

Events after the reporting period (Note 20)

Approved by the board on October 15, 2020:

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,	2020	2019
<b>Revenue</b> (Note 3)	\$ 161,050	\$ 317,736
Cost of sales	(120,000)	(247,518)
<b>Gross margin</b>	\$ 41,050	\$ 70,218
<b>Expenses</b>		
Accretion and finance costs (Note 8)	1,726,366	432,461
Accretion and leases (Note 12)	37,242	-
Bad debt expense (Note 4)	689,125	-
Business development	-	4,975
Depreciation (Note 4)	124,243	276,323
Consulting	272,037	151,482
General and administrative (Note 6)	719,229	2,088,635
Impairment (Note 15)	685,429	-
Insurance	11,797	20,849
Interest expense	18,173	19,497
Management fees (Note 6)	1,104,292	384,561
Professional fees	168,225	742,692
Share-based payments (Note 7)	58,000	825,500
Transfer agent and regulatory fees	75,243	91,460
Travel	45,868	124,182
<b>Total expenses</b>	<b>(5,735,269)</b>	<b>(5,162,617)</b>
Foreign exchange gain (loss)	123,392	(53,301)
Interest income	174,797	46,312
Gain (loss) on sale of Marketable Securities (Note 14)	(101,983)	100,525
Gain (loss) on sublease	4,913	-
Recovery of deferred income tax liability (Note 17)	-	262,685
Other income	39,648	277
Adjustment for change in fair value of Marketable Securities (Note 14)	-	70,800
<b>Loss and comprehensive loss</b>	<b>\$ (5,453,452)</b>	<b>\$ (4,665,101)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.14)</b>	<b>\$ (0.13)</b>
<b>Weighted average number of shares outstanding - basic and diluted</b>	<b>37,641,534</b>	<b>34,589,602</b>

# Chemistree Technology Inc.

(in Canadian Dollars)

## Consolidated Statements of Cash Flows

For the years ended June 30,	2020		2019	
<b>OPERATING ACTIVITIES</b>				
Loss for the year	\$	(5,453,452)	\$	(4,665,101)
Items not affecting cash:				
Depreciation		124,243		276,323
Accrual of interest receivable		(84,010)		(21,177)
Accrual of interest payable		18,172		19,498
Bad debt expense		689,125		-
Impairment		685,429		-
Share-based payments		58,000		825,500
Fair value adjustment for marketable securities		-		(70,800)
Accretion of convertible debentures		766,197		164,733
Accretion of lease payable		37,242		-
Accretion of investment in sublease		(35,227)		-
Loss (gain) on sale of marketable securities		101,983		(100,525)
Foreign exchange		168		-
Recovery of deferred income tax liability		-		(262,685)
Share-based payments		58,000		-
Other income (loss)		(4,647)		-
Changes in non-cash working capital items:				
Receivables and prepaids		(120,943)		(833,216)
Accounts payable and accrued liabilities, and due to related parties		24,224		(210,140)
<b>Cash used in operating activities</b>		<b>(3,193,496)</b>		<b>(4,877,590)</b>
<b>INVESTING ACTIVITIES</b>				
Property and equipment purchases		(171,203)		(1,737,066)
Investment		(280,257)		(245,000)
Proceeds from sale of Marketable Securities		72,067		242,275
Note receivable		(464,715)		(588,884)
<b>Cash used in investing activities</b>		<b>(844,108)</b>		<b>(2,328,675)</b>
<b>FINANCING ACTIVITIES</b>				
Common shares issued for cash		-		2,361,385
Share issue costs		-		(99,790)
Proceeds from notes payable		-		22,000
Proceeds from debentures, net of transaction costs		-		9,547,184
Lease payments made		(162,414)		-
Lease payments received		161,035		-
<b>Cash provided by (used in) financing activities</b>		<b>(1,379)</b>		<b>11,830,779</b>
<b>Change in cash and cash equivalents during the year</b>		<b>(4,038,983)</b>		<b>4,624,514</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>7,286,516</b>		<b>2,662,002</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$</b>	<b>3,247,533</b>	<b>\$</b>	<b>7,286,516</b>
<b>Cash paid for:</b>				
Interest	\$	960,168	\$	260,756
Income taxes	\$	-	\$	-
<b>Cash and cash equivalents comprises:</b>				
		<b>2020</b>		<b>2019</b>
Cash	\$	3,247,533	\$	1,286,516
Cash equivalents		-		6,000,000
	<b>\$</b>	<b>3,247,533</b>	<b>\$</b>	<b>7,286,516</b>

Supplemental disclosure with respect to cash flows (Note 11)

The accompanying notes form an integral part of these consolidated financial statements

# Chemistree Technology Inc.

(in Canadian Dollars)

## Consolidated Statements of Changes in Shareholders' Equity (Deficiency) For the years ended June 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
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)
<b>Balance, June 30, 2019</b>	<b>37,384,430</b>	<b>\$ 17,075,475</b>	<b>\$ 3,225,330</b>	<b>\$ (16,246,194)</b>	<b>\$ 4,054,611</b>
Shares issued upon debenture conversions	330,000	132,370	(9,488)	-	122,882
Share-based payments - options	-	-	58,000	-	58,000
Loss for the year	-	-	-	(5,453,452)	(5,453,452)
<b>Balance, June 30, 2020</b>	<b>37,714,430</b>	<b>\$ 17,207,845</b>	<b>\$ 3,273,842</b>	<b>\$ (21,699,646)</b>	<b>\$ (1,217,959)</b>



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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

For the years ended June 30, 2020 and 2019

(in Canadian dollars)

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### 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 204 - 998 Harbourside Drive, North 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, 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, 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, 2020, the Company had working capital of \$3,315,694 (2019: \$8,311,037) and an accumulated deficit of \$21,699,646 (2019: \$16,246,194). 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.

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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

For the years ended June 30, 2020 and 2019

(in Canadian dollars)

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### 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

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 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 for its Washington facility, which is also sub-leased to another party (Note 12). The Company, on adoption of IFRS 16, recognized a lease liability and an investment in a sublease in relation to this commercial lease, which has previously been classified

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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

For the years ended June 30, 2020 and 2019

(in Canadian dollars)

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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 of 10% as at July 1, 2019.

The effect of adopting IFRS 16 as at July 1, 2019 is as follows:

Assets	\$
Investment in sublease – current portion	261,348
Investment in sublease – long-term portion	150,633
Right-of-use-assets	-
Total Assets	<u>411,981</u>
Liabilities	
Lease liabilities – current portion	271,556
Lease liabilities – long-term portion	135,778
Total Liabilities	<u>407,334</u>

Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

### Right-of-use-assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over a time period based on the shorter of their estimated useful life and the lease term. Right-of-use assets are subject to impairment.

### Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

### Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and

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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

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(in Canadian dollars)

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leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

### 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 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.

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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

For the years ended June 30, 2020 and 2019

(in Canadian dollars)

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### 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, investment, and marketable securities as fair value through profit and loss. Trade receivables and note receivable are classified as amortized cost. The Company's accounts payable and accrued liabilities, due to related parties, interest payable, convertible debentures, and notes payable are classified as other financial liabilities.

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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

For the years ended June 30, 2020 and 2019

(in Canadian dollars)

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### 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 services at \$US 10,000 per month to the Washington Strategic Partner (Note 4), and obtains finance income from its investment in a sub-lease (Note 12).

### 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. Estimated useful lives are reviewed by management and adjusted if necessary. Depreciation does not apply to real property. The Company's equipment is depreciated at a rate of 10%. In the year ended June 30, 2019 the Company applied a depreciation rate of 20% to equipment, however an updated assessment from the operator during the year ended June 30, 2020 provided the basis for a prospective change in the estimated useful life.

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.

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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

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### 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

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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

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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. We are not aware of any upcoming accounting changes or pronouncements which would be expected to have a material impact on our financial statements.

## 4. PROPERTY AND EQUIPMENT

	Property \$	Equipment \$	Total \$
<b>COST</b>			
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
Additions	-	171,203	171,203
<b>Balance, June 30, 2020</b>	<b>1,620,323</b>	<b>1,611,191</b>	<b>3,231,514</b>
<b>DEPRECIATION</b>			
Balance, June 30, 2018	-	-	-
Depreciation	-	276,323	276,323
Balance, June 30, 2019	-	276,323	276,323
Depreciation	-	124,243	124,243
<b>Balance, June 30, 2020</b>	<b>-</b>	<b>400,566</b>	<b>400,566</b>
<b>NET BOOK VALUE</b>			
Balance, June 30, 2019	1,620,323	1,163,665	2,783,988
<b>Balance, June 30, 2020</b>	<b>1,620,323</b>	<b>1,210,625</b>	<b>2,830,948</b>



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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

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### Washington Assets

Pursuant to a definitive asset purchase agreement (the “Washington Acquisition”) between Chemistree Washington Ltd. (“Chemistree Washington”) and Elite Holdings Inc. (“Elite”), on June 29, 2018 the Company acquired cultivation equipment for consideration of US\$1,000,000.

In addition to acquiring the Washington Assets, the Company entered into a Commercial Lease agreement 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 \$10,025 per month (Note 12).

The Company sub-leases the Washington Assets to a Strategic Partner, as described in Note 12.

### Trade Receivables

Trade receivables consist of the consulting fees, rental charges and advances towards improvements of the Washington Assets. As at June 30, 2020, the Company has assessed a deterioration of credit quality and applied the expected credit loss model under the guidance of IFRS 9, as follows:

- Current: 0% of carrying value
- Less than 12 months past due: 50% of carrying value
- More than 12 months past due: 100% of carrying value

As a result of applying the above model, the Company has taken allowances for \$689,125 (2019 - \$Nil) in receivables, recognized as bad debt expense in profit and loss.

### Acquisition of DHS Land

On August 7, 2018, through its wholly owned California subsidiary, CHM Desert LLC, the Company purchased 9.55 acres of 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 former 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.

	<b>Principal \$</b>
Balance, June 30, 2018	421,959
Additions	22,000
Balance, June 30, 2019	443,959
Additions	-
<b>Balance, June 30, 2020</b>	<b>443,959</b>

As at June 30, 2020, accrued and unpaid interest on these Notes amounts to \$52,377 (2019 year-end \$ 34,205), which is presented as interest payable.

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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

For the years ended June 30, 2020 and 2019

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### 6. RELATED PARTY TRANSACTIONS AND BALANCES

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, 2020 and 2019, the Company entered into transactions with key management personnel and related parties as follows:

Related party	Nature of transactions
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.
Contact Financial Corp. ("CFC")	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"), director	Fees for services provided by a Director. Investment in ACS, a company of which he is an officer (Note 18)
Nicholas Zitelli ("Zitelli"), director	Investment in ACS, a company of which he is an officer (Note 18)

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

	2020	2019
Management fees <sup>(1)</sup>	\$ 720,000	\$ 320,000

<sup>(1)</sup> For the year ended June 30, 2020, 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 (2019: \$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:

	2020	2019
Rent (general and administrative) <sup>(2)</sup>	\$ 30,000	\$ 30,000

<sup>(2)</sup> For the year ended June 30, 2020, rent was paid to PEMC for office rent and other office services. The Company is required to pay \$2,500 per month to PEMC (2019: \$2,500 per month). The agreement with PEMC can be terminated by either party with six months' notice.

**Chemistree Technology Inc.**  
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The aggregate value of transactions with other related parties were as follows:

	<b>2020</b>	<b>2019</b>
Marketing (general and administrative) <sup>(3)</sup> (Note 15)	\$ 72,000	\$ 222,000

<sup>(3)</sup> For the year ended June 30, 2020, fees were paid to CFC for investor relations and communications services. The Company is required to pay \$6,000 per month to CFC (2019: \$6,000 per month). In addition, \$nil (2019: \$150,000) in fees were paid to CFC for promotional activities.

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

	<b>2020</b>	<b>2019</b>
Consulting <sup>(4)</sup>	\$ 384,292	\$ 210,387

<sup>(4)</sup> For the year ended June 30, 2020, management fees were paid to Aberman. The Company is required to pay \$US24,000 (2019: \$nil) per month for third party consulting services.

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

	<b>2020</b>	<b>2019</b>
Share-based compensation	\$ 46,000	\$ 618,500
Consulting <sup>(4)</sup>	\$ 30,743	\$ 14,623
Equipment <sup>(4)</sup>	\$ 24,613	\$ 116,743
Investment <sup>(5)</sup> (Note 18)	\$ 280,257	\$ -
Travel <sup>(4)</sup>	\$ 19,032	\$ 22,765

<sup>(4)</sup> For the year ended June 30, 2020, expenditures were paid to BL for various categories.

<sup>(5)</sup> Aberman and Zitelli were officers of ACS at the time of the investment.

Due to related parties include the following amounts:

	<b>2020</b>	<b>2019</b>
PEMC	\$ 695	\$ 695
CFC	-	1,750
	<u>\$ 695</u>	<u>\$ 2,445</u>

## 7. SHARE CAPITAL AND EQUITY RESERVES

a) Authorized: Unlimited common shares without par value

b) Issued common shares

*Year ended June 30, 2020:*

The Company issued 330,000 common shares pursuant to the conversion of convertible debentures. Upon this conversion, \$132,370 was reclassified from convertible debentures to share capital.

*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.

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## Chemistree Technology Inc.

### Notes to the Consolidated Financial Statements

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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

#### c) Warrants:

	<b>Warrants</b>	<b>Weighted Average Exercise Price \$</b>
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
Expired - unexercised	(7,409,323)	0.50
<b>Balance, June 30, 2020</b>	<b>28,488,632</b>	<b>0.65</b>

**Chemistree Technology Inc.**  
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As at June 30, 2020, the following warrants were outstanding and exercisable:

Number	Exercise Price	Expiry Date	Remaining Contractual Life (in years)
5,374,932 <sup>(1)</sup>	\$0.50	July 11, 2020 <sup>(2)</sup>	0.03
21,639,500	\$0.70	March 29, 2022	1.75
1,474,200	\$0.50	March 29, 2022	1.75

<sup>(1)</sup> 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 expire after 30 days of such notice.

<sup>(2)</sup> Expired – unexercised subsequent to the year-end.

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:

	2020	2019
Risk-free interest rate	-	1.61%
Expected life	-	2.85 years
Expected volatility	-	158.61%
Expected dividend yield	-	Nil
Weighted average fair value per option	-	\$0.43

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
Granted	1,450,000	0.06
Terminated	(400,000)	0.34
<b>Balance, June 30, 2020</b>	<b>3,700,000</b>	<b>0.27</b>

# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

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As at June 30, 2020, 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	0.77
750,000	\$0.10	June 7, 2022	1.94
250,000	\$0.41	July 11, 2023	3.03
1,200,000	\$0.60	April 5, 2024	3.77
1,450,000	\$0.06	April 9, 2025	4.78

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 3.70 years.

During the year ended June 30, 2020, the Company granted stock options to acquire 1,450,000 (2019: 1,550,000) common shares with a fair value of \$58,000 (2019: \$825,500). The options granted during the period vested on the grant date. The fair value of each option was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	2020	2019
Risk-free interest rate	0.59%	1.65%
Expected life	5 years	5 years
Expected volatility	145.62%	179.32%
Expected dividend yield	Nil	Nil
Weighted average fair value	\$0.04	\$0.53

## 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.

Each Debenture will be convertible at the option of the holder of the Debenture (each, a “Debentureholder”) into common shares in the capital of the Company (the “Debenture Shares”) at any time prior to the earlier

# Chemistree Technology Inc.

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of (i) the last business day immediately preceding the Maturity Date, subject to Mandatory Conversion as defined in the Debenture Indenture, and (ii) the business day immediately preceding the date specified for redemption of the Debentures upon a Change of Control as defined in the Debenture Indenture, at a conversion price of \$0.50 per Debenture Share, subject to adjustment in certain events (the "Conversion Price"). Upon conversion, Debentureholders will receive accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to and including the date of conversion.

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 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	(165,000)	(122,882)	(4,454)	(9,488)
accretion	-	766,197	-	-
recovered	-	-	4,454	-
<b>Balance as at June 30, 2020</b>	<b>\$ 9,567,000</b>	<b>\$ 7,739,770</b>	<b>\$ -</b>	<b>\$ 700,772</b>

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# Chemistree Technology Inc.

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Details of the convertible debenture classification are as follows:

	<b>June 30, 2020</b>
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	(911,238)
Accretion	930,930
Ending balance	<b>\$ 7,739,770</b>
Current portion	-
<b>Non-current portion</b>	<b>\$ 7,739,770</b>

During the year ended June 30, 2020, the Company incurred \$960,168 (paid) in 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.

## 10. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENT AND RISK

### a) Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables, marketable securities, note receivable, investment, 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



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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

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- 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 trade receivables, note receivable, accounts payable and accrued liabilities, due to related parties, interest payable, notes payable, and convertible debenture all approximate their fair values.

The fair value of the Investment is determined based on Level 3 inputs, described in Note 17.

### 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 \$4,008,647, consisting of cash and cash equivalents, trade receivables, 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. See Note 4 with regards to credit risk of trade receivables. 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, 2020, the Company had working capital of \$3,315,694. 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, 2020, 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, notes payable bear interest at variable rates; and its convertible debentures at a fixed rate. 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\$ 57,000 impact on the Company's profit or loss.

## 11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended June 30, 2020, the Company:

- Reclassified the loan receivable to trade and other receivable in the amount of \$523,415.
- Reclassified \$122,882 into share capital from convertible debentures, deferred income tax liability, and equity reserves upon conversion of debentures (Note 8).
- Recognized a 'Right-of-use'/Lease Liability in the amount of \$407,334 (Note 12).
- Derecognized Right-of-use asset, and recognized Investment in sublease in the amount of \$411,981 (Note 12), resulting in a non-cash gain of \$4,647 with other income.

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During the year 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).

## 12. LEASES

### Investment in sublease

On July 1, 2020, the Company adopted IFRS 16, Leases. As a result, the Company recognized an investment in sublease on July 1, 2020 for its sub-lease of a facility in Washington described in Note 4, which was determined to meet classification as a finance lease. Set out below, are the carrying amounts of the Company's investment in sublease and the movements during the year:

	<b>Investment in Sublease</b>
	\$
Lease payments as at June 30, 2019	471,987
Incremental borrowing rate as at July 1, 2019	10%
Discounted operating lease payments as at July 1, 2019	411,981
Interest accretion	35,227
Lease payments received	(161,035)
Foreign exchange	13,037
As at June 30, 2020	299,210
Current portion of investment sublease	142,481
Long-term portion of investment in sublease	156,729

### Right-of-use assets and lease liabilities

On January 1, 2019, the Company adopted IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under the new standard, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The Company has a Commercial Lease described in Note 4.

The Company has recorded these leases as a right-of-use assets and lease liability in the statement of financial position as at June 30, 2020. On July 1, 2019, the lease liability was measured at the present value of the future lease payments that were not paid at that date. These lease payments are discounted using a discount rate of 10%, which is the Company's incremental borrowing rate.

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and movements during the period:

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	Right-of-use Assets \$	Lease Liabilities \$
Operating lease commitments as at June 30, 2019	-	473,167
Incremental borrowing rate as at July 1, 2019	-	10%
Discounted operating lease commitments as at July 1, 2019	407,334	407,334
Investment in sublease	(407,334)	-
Interest accretion	-	37,242
Lease payments	-	(162,414)
Foreign exchange	-	13,205
As at June 30, 2020	-	295,367
Current portion of lease liability	-	154,094
Long-term portion of lease liability	-	141,273

The Company's minimum undiscounted contractual lease payments are as follows:

Less than 1 year	USD120,300
1 to 2 years	USD120,300
2 to 5 years	Nil

### 13. SEGMENTED INFORMATION

The Company operates in one reportable segment, being the business investing in the United States cannabis sector. As at June 30, 2020 and 2019, all the Company's non-current assets were located in the United States and revenue was earned from activity in the United States.

### 14. 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.

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# Chemistree Technology Inc.

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The Company's marketable securities transactions are as follows:

Marketable securities	
Fair value, June 30, 2018	\$ -
additions	245,000
Proceeds from sales	(242,275)
Gain realized on sale	100,525
Unrealized gain	70,800
	<hr/>
Fair value, June 30, 2019	\$ 174,050
Proceeds from sales	(72,067)
Loss realized on sale	(101,983)
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<b>Fair value, June 30, 2020</b>	<b>\$ -</b>

### 15. NOTE RECEIVABLE

a) Arcata Loan

In November 2018, the Company 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 agreed to loan the Processor US\$450,000 (the "Arcata Loan") by way of a secured note (hereafter, "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 is secured by 50% of the equity of the Processor, bore interest at 6% per annum and matured on March 14, 2020. The Note is in default, the Processor has refused to retire the principal and interest and has blocked the Company from realizing on its security. The Company has retained California counsel to advise on remediation through arbitration and/or through litigation. The outcome of recovery efforts is unknown at this time. As such and in accordance with the uncertain of collectability of the Note, in the year ended June 30, 2020, the Company recorded an impairment expense of \$685,429 to reduce the carrying value of the receivable to \$1.

	Note Receivable \$
Balance, June 30, 2018	-
Additions	588,884
Accrued interest	21,177
	<hr/>
<b>Balance, June 30, 2019</b>	<b>610,061</b>
Accrued interest	25,311
FX translation	50,058
Impairment	(685,429)
	<hr/>
<b>Balance, June 30, 2020</b>	<b>1</b>

b) Promissory Note

On July 26, 2019, the Company loaned US\$351,000 to an arms' length borrower (the "Borrower") pursuant to a letter agreement and Promissory Note. The note is due on demand and bears interest

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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

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at 10% per annum. The note is secured by a pledge of a separate loan agreement between the Borrower and Umbrella Industries USA, LLC dated as of April 11, 2019.

### 16. COMMITMENTS

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 agreements are as follows:

- CFC: \$6,000 per month for consulting
- PEMC \$60,000 per month for management services
- PEMC \$2,500 per month for rent
- Aberman US\$24,000 for management services

Minimum commitments related to leases within the scope of IFRS 16 are disclosed in Note 12.

### 17. INCOME TAXES

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

	2020	2019
Loss for the year	\$ (5,453,452)	(4,665,101)
Computed income taxes (recovery)	\$ (1,472,000)	(1,260,000)
Change in statutory rate	73,000	242,000
Permanent differences	31,000	150,000
Share issue costs	-	(27,000)
Change in unrecognized deductible temporary	1,368,000	632,000
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>	<b>(263,000)</b>
<b>Current income tax</b>	<b>-</b>	<b>-</b>
<b>Deferred tax recovery</b>	<b>-</b>	<b>(263,000)</b>

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# Chemistree Technology Inc.

## Notes to the Consolidated Financial Statements

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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:

	2020	2019
Deferred tax assets (liabilities)		
Exploration and evaluation assets	\$ 758,000	758,000
Property and equipment	(219,000)	58,000
Share issue costs	258,000	347,000
Marketable securities	-	(10,000)
Debt with accretion	(493,000)	(712,000)
Allowable capital losses	4,000	-
Non-capital losses available for future period	3,749,000	2,248,000
	\$ 4,057,000	2,689,000
Unrecognized deferred tax assets	(4,057,000)	(2,689,000)
<b>Net deferred tax assets</b>	-	-

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:

	2020	Expiry Date Range	2019	Expiry Date Range
<b>Temporary Differences</b>				
Exploration and evaluation assets	\$ 2,809,000	No expiry date	\$ 2,809,000	No expiry date
Share issue costs	955,000	2041 to 2043	1,286,000	2040 to 2043
Allowable capital losses	16,000	No expiry date	-	No expiry date
Non-capital losses available for future periods	11,754,000		5,729,000	
Canada	9,466,000	2029 to 2040	\$ 5,244,000	2029 to 2039
USA	\$ 2,288,000	No expiry date	\$ 485,000	No expiry date

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

## 18. INVESTMENTS

During the year, the Company completed the acquisition of an interest in Applied Cannabis Sciences of New Jersey ("ACS"), a private company and 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. The consideration for the investment was \$US 215,000 (equivalent to \$280,257 at June 30, 2020). Concurrent with the investment, Chemistree's Chief Financial Officer was appointed CFO of ACS.

The investment is carried at FVTPL based on Level 3 inputs. To date, there has been no valuation of ACS or its equity completed and no financial information made available. Management has determined that the value of this investment has not changed since initial acquisition because the application for the above-mentioned licenses in New Jersey remain pending. Absent any other information being available the Investments fair value at June 30, 2020 is equivalent to cost.

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## **Chemistree Technology Inc.**

### **Notes to the Consolidated Financial Statements**

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#### **19. COVID-19 PANDEMIC**

During the year, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds.

#### **20. EVENTS AFTER THE REPORTING PERIOD**

- a) Warrants to purchase 5,374,932 common shares at \$0.50 expired, unexercised.
- b) 50 convertible debentures, representing \$50,000 in debt obligation of the Company were converted into 100,000 common shares.
- c) On July 9, 2020, pursuant to an Investment Agreement Chemistree closed the first tranche of an investment into ImmunoFlex Therapeutics Inc. (“ImmunoFlex”). The definitive investment agreement includes Chemistree’s initial common share purchase of \$500,000, together with Chemistree being granted a gross sales royalty on ImmunoFlex’s North American sales. A further \$500,000 second tranche common share purchase is conditional on certain performance by ImmunoFlex or at the election of Chemistree. In addition, ImmunoFlex has now appointed Chemistree’s Chief Financial Officer, Douglas Ford to ImmunoFlex’s board of directors. Chemistree is also entitled to anti-dilution pre-emptive rights regarding its share ownership. ImmunoFlex’s products are targeted at prevention and treatment of viruses and improving vaccine effectiveness by safely improving immunity biomarkers and enhancing the immune system as it actively responds to disease.